CAPITA

Capita plc
Annual report and accounts 2014

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

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Designing, installing and maintaining crucial infrastructure across Scotland.

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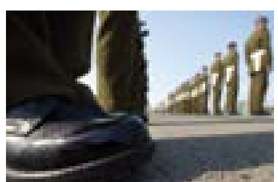
The Directors present the annual report for the year ended 31 December 2014 which includes the strategic report, governance and audited Group accounts for this year. Pages 1 to 108 of this annual report comprise a report of the Directors that has been drawn up and presented in accordance with English 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.



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Supporting the Ministry of Defence in the management and transformation of its national and international infrastructure.

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AMT-SYBEX is helping Capita to expand further into the transport and infrastructure markets, as well as strengthen our mobile technology and smart data management offering.

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Crown's specialist mortgage skillsets – in residential, equity release and small commercial mortgages – has helped Capita generate further organic growth in existing sectors.

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Significant channel shift and increased mobile engagement are key elements of the new system being delivered by Capita, helping to drive a transformation in customer experience.

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Who we are and how we operate

Capita is the UK's leading provider of customer and business process management (BPM) services to both private and public organisations.

We focus on creating smarter services that deliver better outcomes for our clients and their customers.

We play a key role in our clients' operations, designing, transforming and delivering their customer management and administration services and providing professional support services.

We harness innovation, deploy the best of IT and use our expertise to help our clients to operate efficiently and provide excellent, accessible customer services.

In this growth market, we operate in 11 market sectors primarily in the UK and across Northern Europe where there is increasing demand for our services. We also have additional operations and delivery centres in the Channel Islands, India, South Africa, North America and the Middle East.

What drives the market for our services?

There's an ever greater pace of change in society with people living and working in an increasingly digital, mobile and regulated world. Consumers of services are demanding much more in terms of consistency of quality and 24-hour access across communication channels of their choice.

The pressure on private and public sector organisations to adapt and flex to keep up with people's demands in a fair, considered and cost-effective way is constantly growing. They are increasingly turning to companies like Capita to access expertise and resources to help transform their business practices and adapt their business models.

How do we add value to our clients?

We consistently grow our skills and capabilities to help our clients meet these demands. We listen to the needs of both our clients and their customers and design and create new service models that meet these needs. But we don't stop there, we also deliver these transformed services on behalf of our clients, under long term contracts with high service quality standards and defined cost models.

We work in partnership with our clients, enabling them to flourish and give their customers the best experience possible. Together, we are helping organisations and people thrive now and tomorrow.

What is our business strategy?

Our business strategy is to continuously develop and grow our capabilities and organisation in a controlled, profitable manner to address and satisfy the needs of clients and their customers. We consistently seek to service a greater number of market sectors and territories, increasing our market penetration.

We are a cash-generative business and deploy our capital investment carefully to support our continuous growth. We build our existing internal talent, products and services, find and acquire businesses that meet our investment return criteria and bring new talent, capabilities and infrastructure to provide an entry platform in new market segments and sectors.

This strategy enables us to continuously enhance our propositions for existing and new clients and achieve greater penetration across our diverse markets, growing our business year-on-year and fuelling further organic growth.

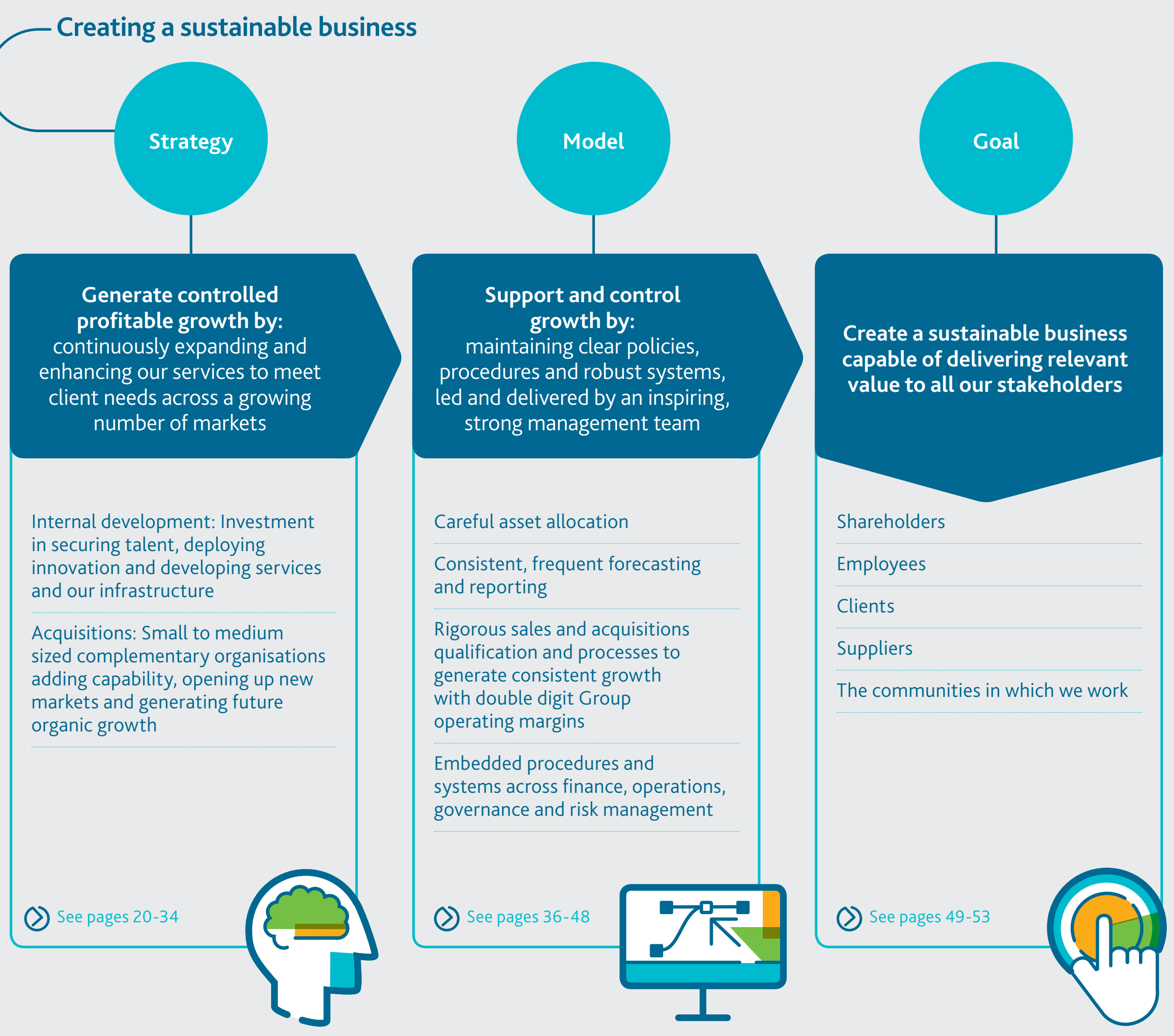
How does our business strategy and model allow us to achieve our goal?

We deliver this strategy through our efficient, profitable business model. The model focuses on maintaining strong leadership and management, a responsible approach and robust infrastructure and systems across our internal operations and external relationships. This includes: asset allocation; management and operations forecasting and reporting; acquisitions and sales qualification and process; embedded policies, procedures and systems across finance, business operations and support services; and extensive governance and risk management systems and oversight. This allows us to grow our business safely and maintain and protect our reputation.

How do we address the needs of our shareholders and wider stakeholders?

The way that we operate and manage our growth through our business strategy and robust business model allows us to gradually achieve greater market penetration in a growing number of diverse markets, supporting a growing number of clients and their customers and generating double digit Group operating margins. This consistent, disciplined approach to achieving profitable, sustainable growth allows us to achieve our business goal of delivering long term value, directly and indirectly, to all our stakeholders – shareholders, employees, clients, suppliers and the communities in which we work and deliver services.

Our business model



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

2014 performance

2014 was a year of excellent financial performance, with 9% organic revenue growth, sustained high returns and levels of cash generation, and an active year for acquisitions. We have significant scope to increase penetration of our large and growing addressable market, supported by a number of structural factors such as fiscal pressure, digitisation, regulation and demographics and our own competitive advantages. This leads us to look forward to the medium to long term with confidence.

Andy Parker
Chief Executive*

*Andy Parker succeeded Paul Pindar as Chief Executive on 1 March 2014.

Strong financial and operating performance in 2014

Underlying revenue growth[1] of 14%[2], including 9% organic growth

Underlying profit before tax[1] up 13% to £535.7m[2]

Underlying earnings per share[1] up 10% to 65.2p[2]

Total dividend up 10% to 29.2p (2013: 26.5p)

Underlying operating cash conversion[1] rate of 112%[2] (2013: 106%[3])

Underlying free cash flow[1] up 18% to £368m[2] (2013: £312m[3])

Post-tax ROCE[1] 14.8%[2] (2013: 15.5%[3])

Reported profit before tax up 36% to £292.4m (2013: £215.0m)

£1.7bn contract wins (2013: £3.3bn), with contract win rate of 1 in 2 (by value)

£310m[4] spent on 17 acquisitions to enhance capability and facilitate future organic growth

An excellent start to 2015

£1.1bn contracts secured to date (2014: £588m), including Fera preferred bidder and Sheffield extension

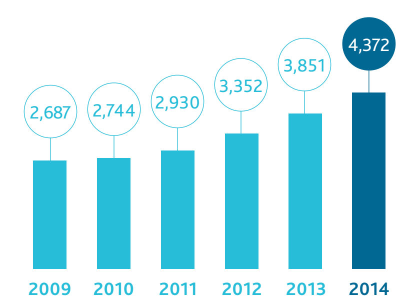
Bid pipeline increased to £5.1bn (November 2014: £4.1bn), 53% private and 47% public sector

Agreement to acquire avocis adds significant future growth platform in Germany and Switzerland

Good visibility of low double digit revenue growth in the full year

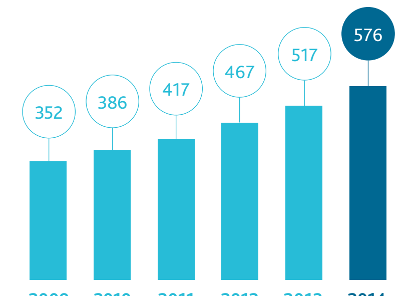
Underlying revenue (£m)[5]

5 year compound growth 10%



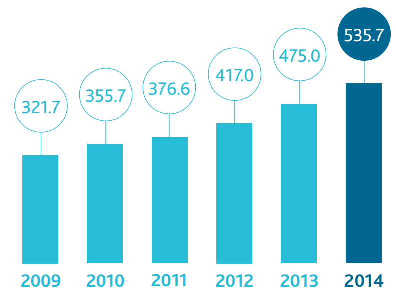
Underlying operating profit (£m)[5]

5 year compound growth 10%



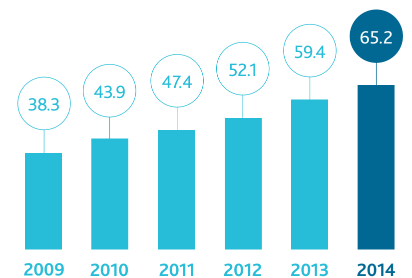
Underlying profit before tax (£m)[5]

5 year compound growth 11%



Underlying earnings per share (p)[5]

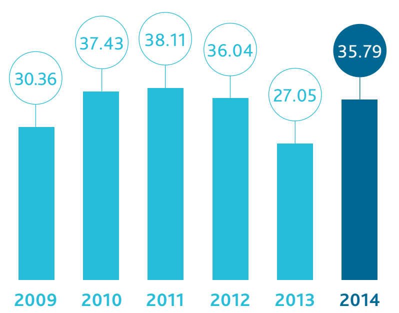
5 year compound growth 11%



Reported profit before tax (£m)

254.7
301.3
294.3
281.4
215.0
292.4
2009
2010
2011
2012
2013
2014

Reported earnings per share (p)



See pages 46-49

1 Excludes non-underlying items detailed in note 5 on page 123.

2 On an ongoing basis, 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers have not been restated on this basis.

3 2013 numbers exclude the partial sale of our Insurance Distribution and planned SIP business closure.

4 As previously announced.

5 Excludes non-underlying items detailed in note 5 on page 123. 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers exclude the partial sale of our Insurance Distribution and planned SIP business closure.

2014 performance continued

Overview

2014 was a year of double digit revenue and profit growth, with sustained high cash flow and returns, alongside strong acquisition activity.

Underlying revenue increased by 14% to £4,372m[2] (2013: £3,851m[3]), including 9% organic and 5% acquisition growth. Underlying operating profit[1] rose by 11% to £576.3m[2] (2013: £516.9m[3]) and underlying profit before taxation[1] increased by 13% to £535.7m[2] (2013: £475.0m[3]). Underlying earnings per share[1] grew by 10% to 65.2p[2] (2013: 59.4p[3]). We increased our total dividend for the full year by 10% to 29.2p per share (2013: 26.5p). Underlying free cash flow[1] was up 18% to £368m[2] (2013: £312m[3]) and ROCE[1] was 14.8%[2] (2013: 15.5%[3]), which compares to our estimated post-tax WACC of 7.2%.

The majority of our divisions performed well in 2014, with strong growth particularly in Workplace Services and Justice & Secure Services, supported by new contracts, and significant improvements in the profitability of IT Services and Property & Infrastructure, helped by the macroeconomic backdrop. These positives were partially offset by Insurance & Benefits and Health, and the end of the Disclosure and Barring contract in March 2014.

The aggregate value of new and extended major contracts secured in 2014 was £1.7bn, representing a 1 in 2 win rate. We are pleased to report an increase in the bid pipeline to £5.1bn since the IMS in November 2014 (£4.1bn) and that we have secured £1.1bn of new business since the year end. We are seeing good levels of activity in both the private sector, across telecoms, financial services and utilities, and the public sector, particularly in health, local government and defence.

We continued to focus on acquiring small- to medium- sized businesses in 2014, to enter new markets, build capability in existing areas and enhance our sales propositions to facilitate future organic growth. We invested a total of £310m[4] on acquisitions, excluding deferred and contingent considerations, acquiring 17 organisations in markets such as utilities & transport software, IT networking, mortgage administration and Germany.

See pages 25-27

Major contracts wins

15 contracts worth £1.7bn in aggregate won in 2014

January

Transport for London (TfL)

Value: **£145m new contract + £30m early take on of existing services**

Contract: Congestion charge and low emission zone, plus processing of traffic enforcement notices

Duration: 5 years

Type: New

Details: Provision of IT systems, back office and contact centre operations to run the schemes and associated enforcement processes.

See page 54

February

NHS Scotland and other public sector bodies

Value: **£325m**

Contract: Scottish Wide Area Network (SWAN)

Duration: 9 years

Type: New

Details: Delivery of a single public services network to facilitate data-sharing for all public service organisations within Scotland.

See page 12

1 Excludes non-underlying items detailed in note 5 on page 123.

2 On an ongoing basis, 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers have not been restated on this basis.

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4 As previously announced.

Shareholder returns

Dividends: The Board is recommending a final dividend of 19.6p per ordinary share (2013: 17.8p), making a total of 29.2p for the year (2013: 26.5p), representing an increase of 10%. Dividend cover[1] is 2.2 times[2] for 2014. The final dividend will be payable on 28 May 2015 to shareholders on the register at the close of business on 17 April 2015. The Group's total dividend has grown at a compound annual rate of 12% over the five years to 31 December 2014.

Return on capital employed: Our post-tax return on average capital employed (ROCE)[1] in 2014 was 14.8%[2] (2013: 15.5%[3]), which compares to our estimated post-tax WACC of 7.2%. ROCE reflects how productively we deploy capital. In 2014, it was incorporated into the Board Directors' long term incentive scheme, 25% of which is now based upon performance against ROCE targets and 75% based upon EPS growth targets.

Total shareholder returns: Over the 10-year period to 31 December 2014, Capita has delivered £1.5bn (net of £274m equity raising in April 2012) to shareholders through dividends, share buybacks and special dividend. Capita's total shareholder return over the same period is 269% compared to 108% for the FTSE All-Share Index.

Delivering profitable organic growth

Our sales team focuses upon value enhancing transformational outsourcing and partnering opportunities, where the Group has sustainable competitive advantage and can leverage its unique blend of commercial skills. We are also increasing our emphasis upon expanding existing client relationships in our targeted vertical markets.

The aggregate value of new and extended major contracts secured in 2014 was £1.7bn (2013: £3.3bn in aggregate, including Telefónica UK (O2)), representing a 1 in 2 win rate for the Group by value. We have had a good start to 2015, with £1.1bn aggregate contracts secured to date including our appointment as preferred bidder on Fera and Sheffield extension.

March

Defence Infrastructure Organisation (DIO)

Value: £400m

Contract: Ministry of Defence

Duration: 10 years

Type: New

Details: A Capita-led partnership comprising two integrated sub-contractors, URS and PA Consulting, to manage and transform the UK's national and international defence infrastructure.

See page 28

John Lewis

Value: £93m

Contract: Online contact centre

Duration: 5 years

Type: New

Details: Supporting John Lewis' online growth strategy by delivering an online contact centre, built around John Lewis' customers that integrates with the full range of customer contact channels.

May

BAE Systems Maritime – Submarines

Value: £60m

Contract: IT service transformation

Duration: 5 years

Type: New

Details: Strategic partnership to transform the existing method of IT service delivery for BAE Systems submarine building business in Barrow-in-Furness, Cumbria.

November

The Co-operative Bank

Value: £325m

Contract: Mortgage processing

Duration: 10 years

Type: New

Details: Preferred bidder to transform The Co-operative Bank's mortgage servicing operation in the UK.

See page 45

Other major contracts worth between £25m and £50m

Combined value: £290m

Details: We have secured a further 9 contracts worth an aggregate value of £290m including a new contract with Genesis Housing Association and an extension to our Metropolitan Police radio managed services contract.

1 Excludes non-underlying items detailed in note 5 on page 123.

2 On an ongoing basis, 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers have not been restated on this basis.

3 2013 numbers exclude the partial sale of our Insurance Distribution and planned SIP business closure.

2014 performance continued

Bid pipeline replenished

Since our IMS in November 2014, we have worked hard to replenish the bid pipeline which now stands at £5.1bn (November 2014: £4.1bn). The pipeline is comprised of 28 bids with an average contract length of eight years, including 94% new business and 6% renewals and extensions. We are seeing good levels of activity in both the private sector (53% of the pipeline), across telecoms, financial services and utilities, and the public sector (47% of the pipeline), particularly in health, local government and defence. Behind the pipeline is a larger active prospect list of opportunities, from which we expect to be able to replenish the pipeline as decisions come to fruition over the course of this year.

We have no material (defined as having forecast annual revenue in excess of 1% of 2014 revenue) contracts up for rebid for the next four years.

Our bid pipeline contains all bids worth £25m or above, with bids capped at £1bn and where we have been shortlisted to the last four or fewer. We announce the value of the pipeline three times a year and it is therefore a snapshot at a specific point in time.

Market update

We operate predominantly in the Business Process Management (BPM) market in the UK and Ireland, a large addressable market with significant scope to increase penetration and drive growth over the medium to long term. We continually look for changes in sector dynamics and management, which can act as agents of change and catalysts for potential outsourcing opportunities, and are gradually increasing our addressable market over time by diversifying through new contracts and acquisitions, such as our entry into mortgage administration.

In 2014, we commissioned market research from Ovum, one of the UK's leading independent industry analysts. Ovum estimates that Capita's total addressable market for professional services in the UK is £129bn per annum and that the value of outsourced BPM services was £13bn in 2014 (2013: £12bn). Growth in BPM is expected to out-pace other outsourcing markets. Ovum ranks Capita as the number one BPM vendor by revenue, with 26.9% market share in 2014 (2013: 24.9%).

Enhancing capability and value creation through acquisitions

Our strategy is to make acquisitions to enhance our future organic growth potential and drive value creation for shareholders, with a 15% post-tax ROCE hurdle rate. We focus upon acquiring small to medium-sized businesses, to enter new markets, build capability in existing areas and enhance our sales propositions to facilitate future organic growth. For example, following our acquisitions in the customer management sector we were able to secure contracts with O2 and npower and, more recently, in mortgage administration the acquisition of Crown (now Capita Mortgage Services) was followed by being selected as preferred bidder on Co-operative Bank. In 2014, we invested a total of £310m[1], excluding deferred and contingent considerations, in acquiring 17 organisations.

Our organisational structure

We maintain a straightforward and efficient divisional structure that supports Capita's major sales effort, large scale customer management and business process management contracts, specialist businesses and service lines.

We have good visibility of strong revenue growth in 2015, which will be driven by the conversion of our bid pipeline, acquisitions and the full benefit from last year's contract wins and acquisitions.

Andy Parker
Chief Executive

1 As previously announced.

Each division is led by a divisional executive director, who is a member of the Executive Board along with the Group's two senior divisional finance directors and the heads of corporate development and communications, strategic business development and acquisitions. Company-wide support services, such as IT, finance, legal and commercial, business assurance, risk and compliance, health and safety and environment, HR, corporate marketing and communications, procurement and property and facilities management continue to report directly to Group Board Executive Directors to ensure robust control, consistent standards and shared benefits across the Group.

See page 56

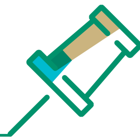
Our Board and people

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

As announced in November 2014, Gordon Hurst will retire from Capita and step down as Group Finance Director and from the Group Board with effect from 28 February 2015, after 27 years with the Company. Gordon will remain employed by the Group as a consultant until 30 September 2015. The Board warmly thanks him for his significant contribution to the success of Capita and wishes him all the best for the future.

In line with Capita's senior management succession plan, Nick Greatorex, previously Executive Director of Capita's Insurance & Benefits Services division, will join the Group Board and succeed Gordon as Group Finance Director effective from 1 March 2015. Nick was released from his previous role from 1 December 2014, allowing him to work closely alongside Gordon through the 2014 annual results and 2015 annual business planning period.

On 1 January, we appointed Andrew Williams as an Independent Non-Executive Director and to the Nomination, Remuneration and Audit and Risk Committees. Andrew is Chief Executive of Halma plc, a leading specialist in safety, health and environmental technologies and a FTSE 250 company.



Future prospects

We have good visibility and are on track to deliver low double digit revenue growth in 2015, driven by the conversion of our bid pipeline, the timing of which is likely to be more evenly spread than last year, acquisitions and full benefit from last year's contract wins and acquisitions. We expect our operating margin to remain broadly stable and will continue to manage the business to deliver a combination of sustainable growth, high levels of cash flow and return on capital.

We operate in a large, addressable market with scope to increase penetration supported by a number of structural factors such as fiscal pressure, digitisation, regulation and demographics and our own competitive advantages, which lead us to look forward to the medium to long term with confidence.

Platform to drive further value creation

2014 performance continued

Financial Key Performance Indicators

KPI

2014 progress against our principal financial key performance indicators (KPIs)

Key performance indicator	Aim	Context	Progress in 2014
Operating margin[1] See page 46	**Consistently maintain underlying operating margins**	We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective	13.2% 2013: 13.4%
Earnings per share (EPS)[1] See page 47	**Achieve long term, consistent growth in EPS**	Long term growth in EPS is a fundamental driver of shareholder value. Board Directors' incentive schemes have EPS targets to align their interests with those of our shareholders See page 92	65.15p 2013: 59.4p
Free cash flow[1] See page 47	**Maintain an operating cash conversion ratio of at least 100% and high level of free cash flow**	We focus on securing timely payment terms and cash conversion underpinned by providing valued services and maintaining an efficient finance operation	£368m 2013: £312m
Capital expenditure See page 48	**Contain net capital expenditure (capex) at or below 4% of revenue**	This helps us to focus investment on the opportunities that generate the best return for shareholders and avoid tying up too much capital in long term projects	3.3% 2013: 3.7%
Return on capital employed (ROCE)[1] See page 48	**Deliver ROCE which is well in excess of our cost of capital**	ROCE reflects how productively we deploy capital and in 2014 it was incorporated into senior managements' long term incentive schemes, which are now 25% based upon performance against ROCE targets See page 92	14.8% 2013: 15.5%
Gearing – interest cover See page 48	**Maintain an efficient capital structure, with an appropriate level of gearing**	It is important for our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf	14.2 times 2013: 12.3 times
Economic profit[1] See page 48	**Deliver value for shareholders through positive and steadily growing economic profit**	Group economic profit allows us to assess the value created in excess of the required return of the Company's investors (equity shareholders and debt holders)	£240m 2013: £211m

1 Excludes non-underlying items detailed in note 5 on page 123. 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers exclude the partial sale of our Insurance Distribution and planned SIP business closure.

Non-financial Key Performance Indicators

2014 progress against our principal non-financial key performance indicators (KPIs)

Key performance indicator	Aim	Context	Progress in 2014
Shareholder value See page 49	**Steadily grow ordinary dividends in line with profits (annual growth of total dividends)**	Demonstrates the financial health of the business and commitment to creating shareholder value	10% 2013: 13%
Client resources See page 33	**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	80 multi-service delivery centres 2013: 73 multi-service delivery centres
Create successful supplier relationships See page 34	**Annually audit all strategic suppliers against Capita's standards of business**	A proactive approach to procurement helps us secure best value goods and services, which can improve our performance and that of our clients	100% 2013: 100%
Employee resources – leadership See page 30	**Maintain high retention rate for senior managers (divisional directors and senior management teams)**	We need to have the right leadership and skills to deliver the Group's long term growth strategy	97% 2013: 98%
Employee resources – skills & flexibility See page 30	**Maintain overall employee retention at or above industry average[1]**	Our people are vital to our success in delivering high quality, efficient services to our clients	78% 2013: 82%
Controlling our environmental impacts See page 51	**Continue to measure and assess our carbon footprint[2] and minimise wherever possible**	Although we are a low impact organisation, our aim is to manage and reduce our environmental impacts and use our resources efficiently	139,672 2013: 110,341 (tonnes CO_2eq)
Supporting our communities See page 51	**Continue to grow and measure our community investment annually, using London Benchmarking Group methodology**	Our business places us at the heart of the communities that we operate in and positive relationships are therefore vital to the long term health of the business	£2.2m 2013: £1.8m

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

1 CIPD 2013 (88.1%).
2 Based on latest available greenhouse emission factors from Defra.

Delivering the Scottish Wide Area Network (SWAN)

In October 2012, NHS Scotland and a number of other public bodies announced that they planned to commission a new wide area network, open for use by all public sector bodies in Scotland.

Capita bid for the contract supported by Updata – a networking company with which Capita had existing partnership agreements. Following a competitive tender process, the framework agreement and customer-specific call-off contracts were signed in February 2014. Over the following 12 months, four additional customers have committed to joining the service, bringing the total to eight.

The award of the contract has confirmed Capita's place at the heart of the public sector in Scotland: designing, installing and maintaining crucial infrastructure for the entire region. SWAN is already enabling the public sector to share infrastructure and service costs, increase efficiencies and facilitate data sharing and cross-organisational working across Scotland's public sector.

It is also testament to the strength and reputation of Capita's market-leading IT enterprise services business. During the first 12 months since the contract was signed, over 2,800 sites have already been connected, a core network and operations centre has been constructed and the team has received Public Service Network (PSN) accreditation and has achieved ISO27001, recognising international information security best practice. In April 2014, Capita purchased Updata.

SWAN is a key development in public sector telecommunications procurement. The ambitious delivery model is likely to shape similar programmes across the UK and the world in the future. Once the initial roll out is complete, more than 4,900 sites will be connected to the new network, with other public bodies having the option to join the service when their existing network contracts expire.

The Scottish Wide Area Network is a major step forward in Scottish public sector infrastructure which will create major savings and deliver an excellent service. SWAN is a good deal for the Scottish taxpayer and anyone who uses public services, whether in schools, councils, hospitals or elsewhere.

Ian Crichton
Chief Executive, NHS National Services Scotland

Contract won
February 2014

Value
Up to £325m over nine years

Core business
Delivery of a new wide area network for public sector bodies in Scotland

SWAN facilitating data sharing and cross-organisational working across Scotland's public sector

Designing, and implementing a world-leading infrastructure delivery model

Strengthens Capita's position at heart of the public sector in Scotland

4,900 sites will be connected to the new network

Contract builds on Capita's existing capacity and expertise

Operating in growth markets

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

Our core focus is on transformational deals within the customer management and BPM market across the UK and Ireland.

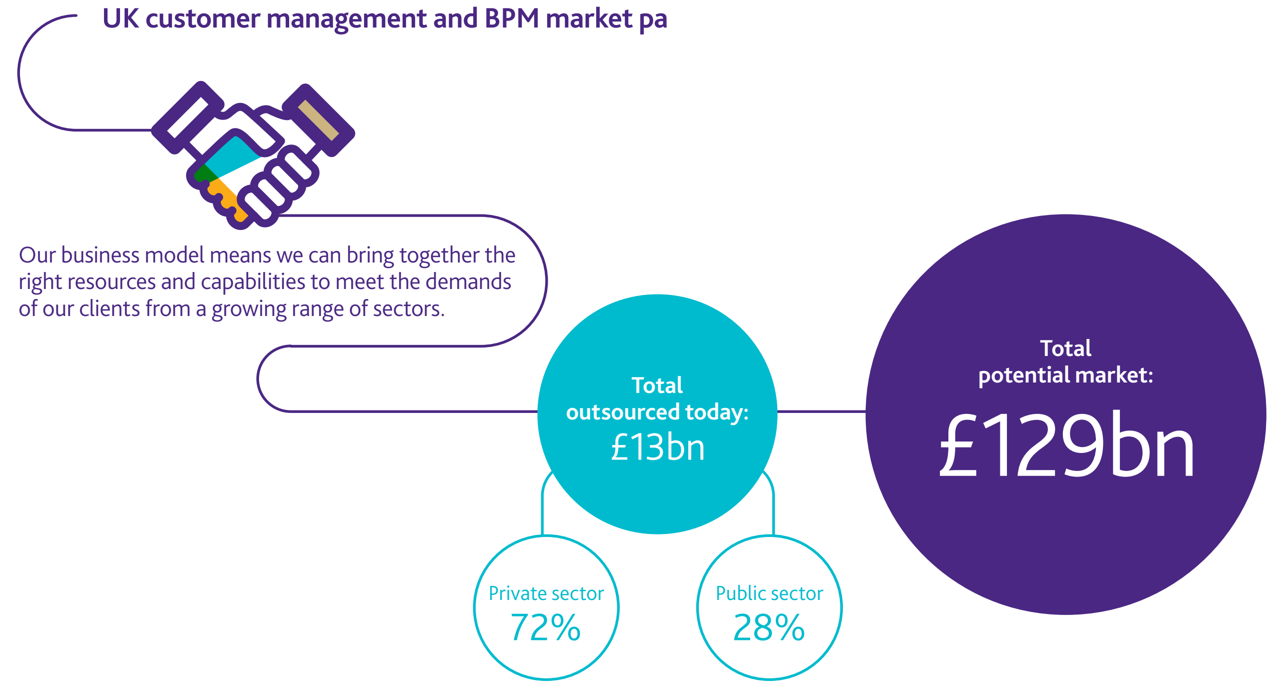
During 2014, Capita enlisted Ovum to review the total addressable UK market for customer management and BPM. Ovum's research estimates that Capita's total UK addressable market is £129bn per year, of which only £13bn was outsourced in 2014 (2013: £12.4bn). Of this £13bn, 72% was in the private sector and 28% in the public sector.[1]

Ovum has again ranked Capita as the number one BPM vendor by revenue, with 26.9% market share in 2014 (2013: 24.9%), a greater share than the rest of the top ten vendors combined. Our revenue split continued to be spread between public and private sectors at 48% and 52% respectively. As we continue to secure further growth in the private sector, the shift is in line with our expectations that Capita's revenues will reflect the current market opportunity over time.

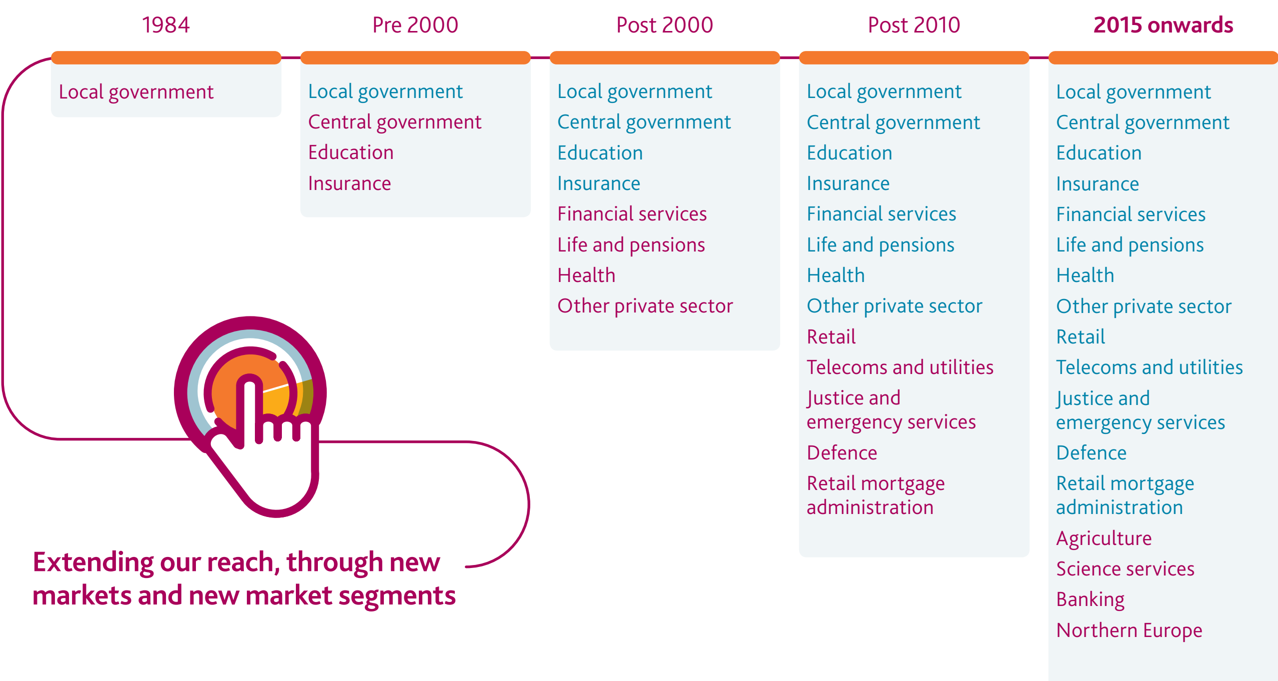
Creating organic growth across existing, emerging and potential new markets

From our entry point in local government in 1984, we have deliberately diversified our market reach, giving us the flexibility to target the right opportunities, shifting our focus depending on the level of activity and potential in each market we operate in.

Our business model means we can bring together the right resources and capabilities to meet the demands of our clients across a wide range of sectors. This approach has allowed us to grow from a company with 320 employees and a revenue of £25m in 1991 to a FTSE 100 company with over 68,000 employees and revenue of £4,372m in 2014.



1 **Ovum methodology:**
Ovum's market sizing and methodology was firstly to identify the composition of the labour market in the UK. Secondly, assumptions were made on how big a proportion of jobs in each occupational level could potentially be outsourced. As it is unlikely that all job functions would be outsourced, the following caps were applied: a maximum of 25% for managers and senior officials and a maximum of 40% for all other occupational levels. Using various sources of information, average salary levels were then applied. Other costs were taken into account along with the assumption that outsourcing would bring a reduction in cost base.



Extending our reach, through new markets and new market segments

During the year, we have continued to explore new and emerging markets where we believe there are opportunities for further organic growth for Capita. These have included geographic reach into Germany, and further geographic expansion in the Republic of Ireland as well as vertical expansion into mortgage processing and the agriculture sector.

The competitive landscape

Our continued growth into new areas means Capita operates amongst a diverse peer group, with competitors differing depending on the market we are engaged in. We believe our breadth and scale of operations and ability to deliver innovative solutions, coupled with our robust approach to governance and business management, stand us apart from others in the BPM landscape, enabling us to cement our market leading position.

Understanding our markets

We resource our business development teams with market experts who understand the unique challenges and opportunities facing the sectors we work in. We are constantly in ongoing dialogue with existing and potential clients, listening to their challenges and shaping potential solutions. We also continually look for changing market and company specific dynamics that may act as a catalyst for new outsourcing opportunities, where we can improve our clients' services whilst still providing value for money.

The development in digital technologies over recent years, and the increasing choice and power being delivered to end customers has provided a further catalyst for us to help our clients improve their customer services. We have a series of specialist practices providing expertise in areas including digital, behavioural science, analytics, user experience and service design, which all help to keep our customers at the forefront of their markets.

Market drivers

There are broader changes in the way that consumers value the products and services delivered to them that increasingly play into Capita's strength and expertise in managing customer experiences and delivering customer transformation. According to research conducted by Ipsos MORI, "experience is the new brand" with product or service quality now taken for granted, "how a product and service makes us feel matters more than mere functionality". According to MORI, data protection is also increasingly important to customers with personal data safety being increasingly used in purchase decision making.

Operating in growth markets continued

Established markets: Public sector

Local government

The latest local government funding settlement will see £2.6bn cut from local authority budgets in 2015–16, continuing pressure on local authority finances. This continues to drive a need to achieve efficient operations, which often involves accessing the skills of a specialist third party. Concurrently, there is significant growth in the demand for adult social care services and associated legislative change which is creating pressure to bring professional management disciplines to bear, areas Capita is well placed to deliver in.

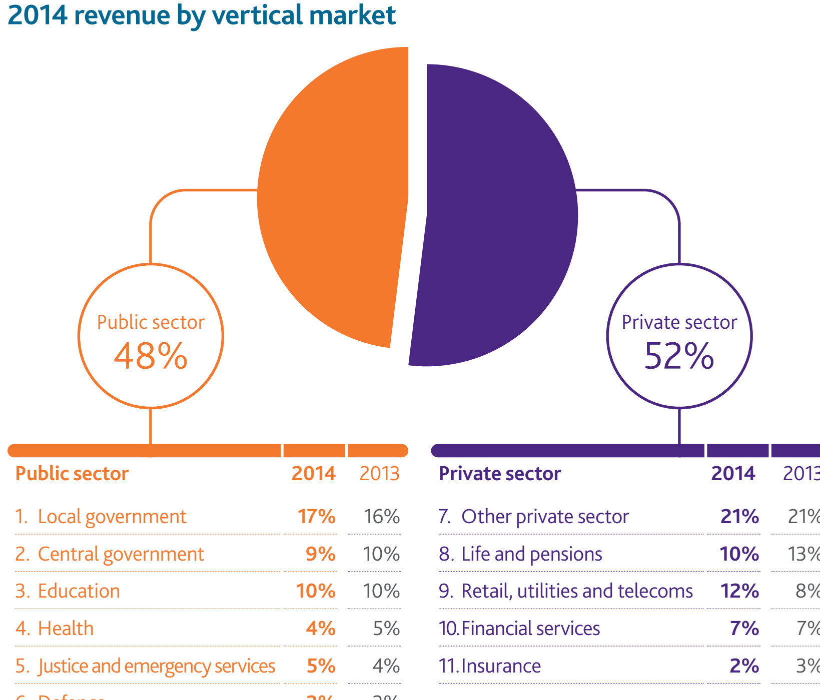
With central funding being reduced, there is also an increased recognition of the role for commercialisation of council assets and services to develop revenue streams, with a role for joint activity and sometimes actual public sector subsidiary partnerships with commercial organisations who can bring investment, specialist expertise as well as product, pricing, sales and marketing knowledge.

Central government

Aside from any areas that may be 'ring-fenced' at the outset of the next parliament, public sector budgets are widely expected to be subjected to further significant annual reductions. The Government has stated it plans to save £25–30bn by 2020, but to do so will require more innovative approaches as future savings will be more difficult to achieve. A recent Cabinet Office paper[1] outlines the requirement on government "to be more creative with how it delivers public services, from a stronger push on digital technology to introducing structural and transformational reform in government departments, agencies and public bodies".

Irrespective of the type of government that will be formed as a result of the 2015 general election and that there may be a short interruption in the flow of services being procured from the supplier market, the core pressures to improve public services and reduce delivery costs remain.

2014 revenue by vertical market



Public sector	2014	2013
1. Local government	**17%**	16%
2. Central government	**9%**	10%
3. Education	**10%**	10%
4. Health	**4%**	5%
5. Justice and emergency services	**5%**	4%
6. Defence	**3%**	3%

Private sector	2014	2013
7. Other private sector	**21%**	21%
8. Life and pensions	**10%**	13%
9. Retail, utilities and telecoms	**12%**	8%
10. Financial services	**7%**	7%
11. Insurance	**2%**	3%

Public bodies will need to innovate and transform their services by drawing on new capabilities, many of which Capita is well positioned to provide. Delivering transformation through collaboration and partnering plays to Capita's strengths as we can bring new commercial models, initiatives and expertise to improve services, create jobs and support economic regeneration.

Building on the success of AXELOS, our public sector subsidiary partnership with the Cabinet Office, and The Defence Infrastructure Organisation (DIO), we expect more opportunities to emerge to create open and transparent partnership arrangements with a focus on shared risk and reward, which will help government secure greater commercial value from public assets. We also expect to see greater opportunities to help government deliver on its digital and channel shift objectives.

Health

Funding pressures are expected to be pronounced in the NHS, with NHS England's 'Five Year Forward View' suggesting that its £30bn funding challenge will be met by £22bn of NHS savings and £8bn of additional funding.

As a consequence, NHS providers desperately need to update their technology to help staff work more productively, but have no way to fund it – except through resources released from areas such as surplus property, an approach supported by NHS England. Capita is positioned well to deliver the combined technology and property offer that NHS Trusts are seeking.

We are also well placed to support the newly implemented Clinical Commissioning Groups (CCGs) in delivering health and social care integration as we not only support NHS commissioners but also work with local authorities.

The large, central health organisations such as NHS England, also now need to match the savings being demanded of frontline NHS services.

1 Efficiency and Reform in the next Parliament.

Justice & emergency services
Police and Justice services will remain under pressure and there is a continued drive for collaboration in and between services as they seek cost savings and operational efficiencies.

Ministers across Government recognise that there is significant replication and wasted effort caused by the inability to get access to and share important information from all responding agencies dealing with the serious 'interventions' which require multi-agency collaboration. This focus will help to drive the collaborative / transformational agenda which we are ideally placed to help deliver.

Education
In common with other public services, the education budget is under pressure. The latest spending round saw the Government announce that the schools budget would be cut by a further 1%, in real terms, in 2015–16 – driving the need for efficiencies. Alongside this, however, are reforms that have meant that schools now have greater discretion over how they spend their budgets. The introduction of the academy system where institutions have autonomy to select their own suppliers for support functions is indicative of Government's desire to encourage innovative approaches in the sector.

Defence
In the defence sector, the MoD is undertaking a major transformational exercise as it looks to rebalance capabilities, improve equipment procurement and support and manage a declining budget. The 2015 Strategic Defence and Security Review (SDSR) will set the department's long term goals which will have a follow-on impact across the MoD and armed forces. Capita will continue to focus on looking for opportunities to provide support services and help the MoD to release value from their assets.

Established markets: Private sector
Across the private sector, we continue to see more emphasis on improving end-customer experiences through better utilisation of digital technologies, particularly in our growing and emerging markets. As part of this, customer insight and analytics are playing a crucial role in developing new solutions that support customer retention and sales.

Life & pensions
The life industry is coming to terms with the impact of announcements in the 2014 budget that give providers an opportunity to refresh their proposition set to reflect a new, more engaged lifetime journey of savings accumulation and de-cumulation.

Regulatory changes such as the Retail Distribution Review and the EU Gender Directive are having a significant impact on the UK life & pensions industry and many firms are looking for guidance, both around how best to respond to developments, and on how to mitigate the costs of compliance. Automatic enrolment into workplace pension schemes has also increased costs for providers, which they will look to offset through reductions elsewhere. Capita is well placed to assist organisations in changing their service models, embracing digital initiatives and reducing their cost bases to address these changes.

Retail
In retail, much of the interest remains around transforming customer-facing functions, but there is also great potential for outsourcing activity around back-office processes such as finance and accounting (F&A), human resources (HR) and supply-chain management.

Driving this are some fundamental changes in the retail industry, particularly with the ongoing shift to digital platforms and e-Commerce which are forcing traditional retail powerhouses to change how they deliver their products and address their customers.

As a result, retailers are more focused than ever on customer retention, with many turning to third parties to deliver improvements in customer services, including through the use of social media and customer analytics. We are ideally positioned to support these activities and build on our experience with clients such as the John Lewis Partnership and Debenhams.

Utilities
Many of the major pan-European utilities have high levels of debt and see outsourcing as a means of reducing costs and improving efficiency (Ovum). Utilities are expected to pursue strategies to transform customer experiences as new technological innovations such as smart metering shape the market and the requirement for agility increases. Capita will be able to leverage both our infrastructure and customer expertise to maximise our sector growth from supporting the build of new power sources to transforming the customer experience.

Water retail competition in the non-household space is also due to go live in April 2017 which will require significant change within water companies. There are opportunities for Capita both at the centre of this, helping with central market operations in supporting market flows and within water companies, as they transform their operating models.

Telecoms
A key area of demand for services in recent years has come from telecom operators looking for customer-facing support services.

This is unsurprising, given the competitive nature of the market and the relative ease with which customers are able to switch providers. Operators are looking for capabilities to help them manage customer engagement across a number of channels, to aid retention and drive channel shift to lower support costs.

Common drivers in our markets:

Transformation and modernisation of services

Service digitisation

Increased regulation and competition

Maximising the value of existing assets

Operating in growth markets continued

We also see promise in the diversification of many firms into areas such as digital services, as the customer support functions must also possess the skills required to make the most of cross-sell and up-sell opportunities. We have a good track record of supporting clients like O2 with 'best of breed' technology platforms, to run and improve their customer services whilst the businesses enhance and expand their digital service offering to customers.

Insurance

Insurance companies continue to operate in a highly competitive environment, resulting in a greater need for them to focus on improving multi-channel experience to increase customer retention. Where premium growth remains modest, firms are focused on improving operational efficiency and organisational flexibility, areas Capita is well placed to help them address.

Financial services

Financial services organisations' margins remain under pressure as business models and product offerings are becoming more similar. Many firms are looking to reduce costs by standardising processes, rationalise products and automate functions across the front, middle, and back-office. Regulatory changes to the Government's Funding for Lending Scheme (FLS) will make it easier for businesses to borrow, with the potential to stimulate demand for commercial mortgages.

As well as improving operational efficiencies, Capita is well placed to help address the challenges bought by digital disruption and multi-channel operations, increasingly viewed as a key differentiator in the market.

Emerging markets

Mortgages

Capita has extended its capabilities beyond commercial mortgages administration to residential mortgage administration. The market for mortgages is subdued, reflecting fragile consumer confidence. The stamp duty changes announced in 2014 should help to stimulate the market, but interest rate rises are expected in 2015 and banks are starting to gear up to respond. Banks have been reasonably successful in addressing the pre-2020 cohort of interest-only mortgage holders, but more needs to be done on those with longer maturity products in order to mitigate this. We are well positioned to support financial institutions as they address vulnerable customers in both these areas, managing the portfolios and transitioning customers into the providers' more sustainable products.

Banking

The dynamics of this market are changing rapidly, with a raft of challenger banks emerging. The banks spun out of larger groups to satisfy regulators are also attracting interest with their 'back to the future' approach to community banking. The tier 1 banks are responding to this, but some still have some way to go to regain public trust. Banks are reshaping their operating models to reflect the shifting channel preferences of their client base and to cope with the continuous increase in compliance and regulation.

With this changing competitive environment, customer services is therefore top of mind for retail banks, both as a means of retaining existing customers and as a differentiator that enables them to attract new ones.

Science services

Capita sees exciting opportunities to build a high-end presence in the science services market, which we estimate to be worth £2.4bn per annum.

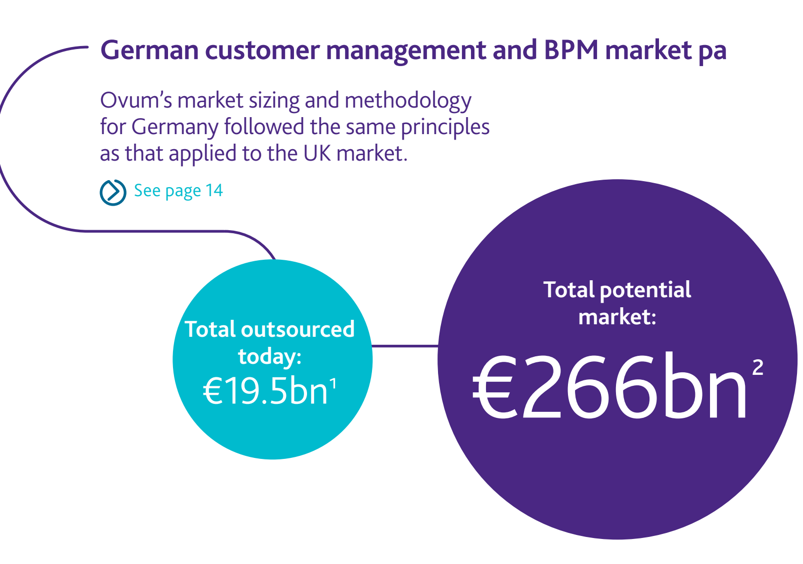
Our recent selection by the Department for Environment, Food and Rural Affairs (Defra) to form a partnership to operate the Food and Environment Research Agency (FERA) provides us with a strong platform for growth in this market.

We have a proven ability to combine professional technical capability with commercial expertise to deliver high value knowledge based services and we see the high value science services market as being ready for a similar approach.

Germany

Having built relationships and developed potential opportunities with our UK clients' northern European parent companies and subsidiaries, we have recently acquired a number of customer management businesses in the DACH region to provide a platform for growth in this new market for Capita. The DACH region has 110 million German speakers and, with Germany the largest economy in Europe, offers an excellent opportunity for growth.

The German outsourced Customer Management and BPM market in 2014 was estimated to be worth €19.5bn and is expected to grow by 6% annually to 2018[1].



1 Source: Nelson Hall.
2 Source: Ovum.

Case study

Acquisition of SouthWestern

The purchase of SouthWestern has provided Capita with an established foothold in the Irish BPO market, building on our existing financial services operations in the country.

The Irish BPO market is estimated to be worth €770m (of which approximately €300m is in SouthWestern's core services of customer management, finance and accounting administration) and is growing at a rate of 5% per year.

This deal will significantly enhance Capita's presence in the Irish business process outsourcing market, which is estimated to be worth €1bn and growing by 5 per cent each year.

Vic Gysin
Joint Chief Operating Officer

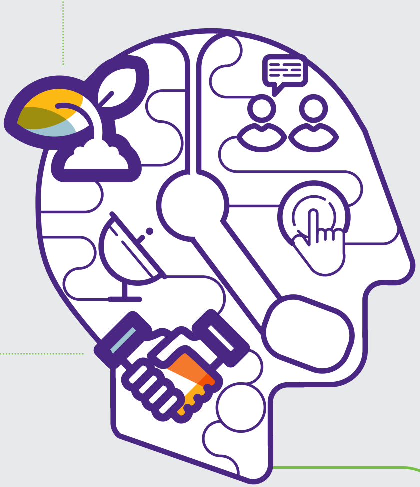
Since the acquisition was finalised in 2014, the business has now fully integrated into Capita and is looking to accelerate growth.

Drawing on expertise from the wider Group, SouthWestern is working with a number of its larger existing clients to offer more strategic transformative services, designed to increase customer satisfaction, drive revenue and secure their position as a market leader in the Irish outsourced services industry.

The acquisition has also allowed Capita to begin pursuing new outsourcing opportunities in Ireland; with SouthWestern's reputation providing a foundation from which to drive interest in services from other parts of the business.

In addition, Capita's major sales team is able to leverage SouthWestern's expertise and experience in the agriculture sector opening up a number of new opportunities in a new market segment for Capita in the UK and Europe.

Opening up new opportunities within Ireland and the agriculture sector



Acquisition of a key regional outsourcer, providing new services in existing geographical markets

Acquisition date
August 2014

Core business
Outsourced managed services

Employees
1,000 employees, primarily based in Ireland with smaller offices in Poland and the UK

Value
€35m (£28m) on a cash free, debt free basis

Key customers
Agriculture sector, including: Department for Environment, Food and Rural Affairs (DEFRA) and Irish Department of Agriculture, Food and the Marine. Private sector, including: Vodafone, eircom and Bord Gáis

Generating profitable growth and creating value

Capita's growth is predominantly fuelled by organic growth from our multi-service major contracts and through growth from our individual businesses. To help fuel future organic growth, we acquire small to medium-sized businesses to broaden our capability and enter new market sectors.

The capability and scale we have built across the Group allows us to create smarter services and deliver better outcomes for our clients. This in turn drives our organic growth, sustaining our business and creating value for all our stakeholders.

We develop our major sales solutions by fully utilising the assets and experience at our disposal, bringing together capability and expertise from across the Group to create tailor-made solutions, directly addressing the unique needs of our clients and their customers.

Creating organic growth

Capita's evolution across a number of markets has enabled us to develop a broad-based services business which generates revenue from multiple clients and contracts across a wide range of diverse sectors.

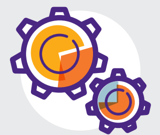
The Group's long term performance is primarily driven by our medium to long term customer and business process management (BPM) contracts which provide a high degree of visibility of future revenues.

Our businesses also generate revenue through single service contracts, annual rollover contracts and project work.

Major contract attributes:

clients with whom we can build a strong relationship and deliver real benefits

defined bid processes with clear decision criteria



opportunities in line with our core competencies in service transformation

potential to build economies of scale

fair risk/reward balance and acceptable contractual obligations

limited requirement for capital investment, unless there is a real value proposition for Capita.

Identifying the right opportunities

Given the long term nature of major contracts, it is essential for us to pursue only those relationships that can both meet 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 across major sales of between one in two and one in three. In 2014, our win rate was one in two.

Securing long term transformational contracts

We manage procurements either centrally or at divisional level, depending on the size and complexity of the opportunity. Our major sales team pursues complex, long term customer management and BPM contracts, usually valued in excess of £50m, drawing on Capita-wide resources to tailor solutions to each client's requirements. Sales opportunities below £50m are generally managed by divisional teams with support from the central major sales team.

On any major sales opportunity, the central bid team can draw on the resources from across our divisional structure including expertise from our single service activities. The divisional and Monthly Operating Board (MOB) reporting structure is vital to the flow of information, expertise and resources to the sales teams both within and across other divisions.

Better outcomes for clients and their customers

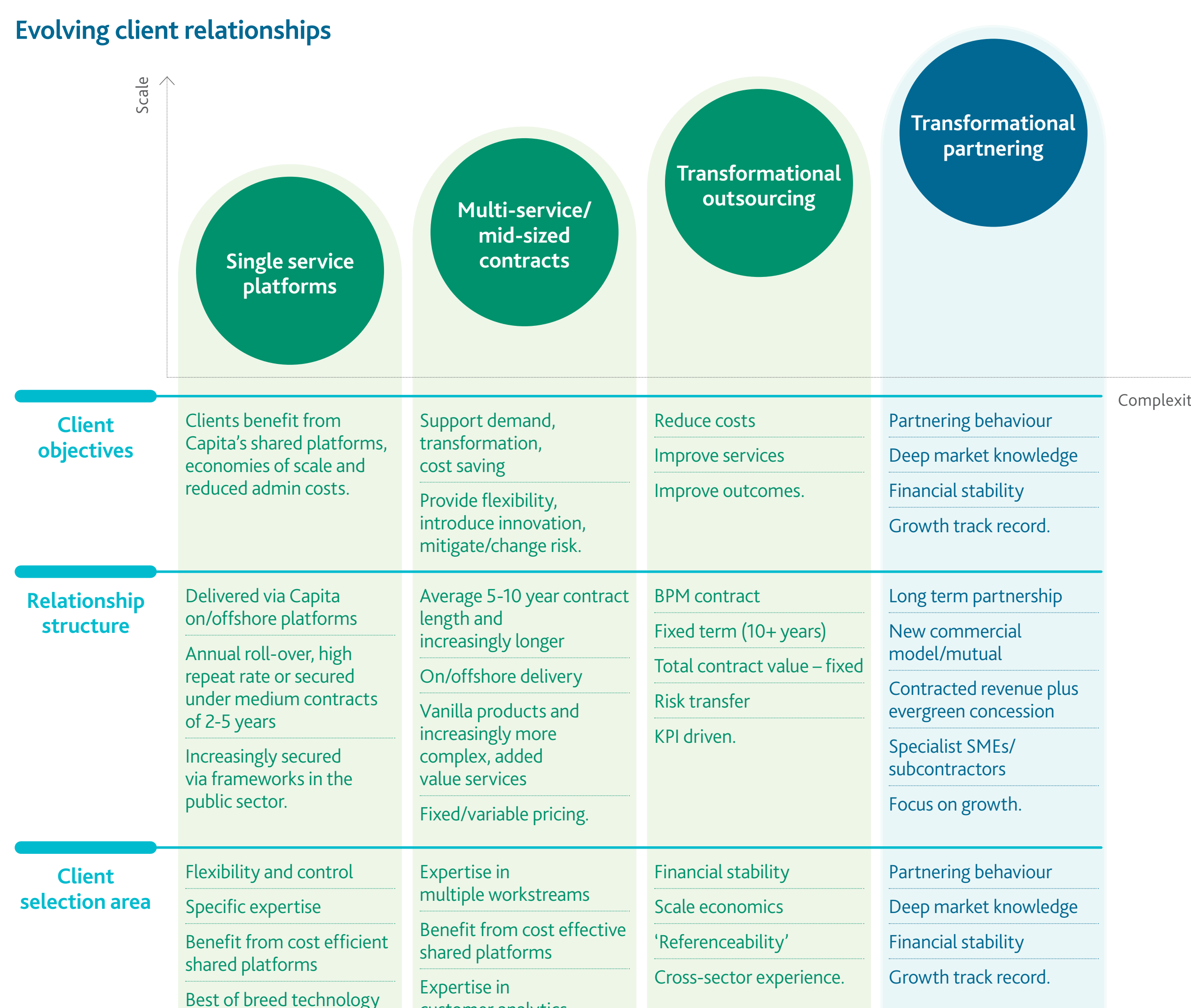
We support our public and private sector clients in improving the quality of customer services at a lower cost – providing citizens and customers with simple, easy to use, personalised and engaging services. Our aim is to deliver public services efficiently but in a way that meets the particular needs of communities and individuals. For our private sector clients, our focus is in improving customer attraction and retention and keeping our clients at the forefront of their industries.

Revenue opportunities and commercialisation

We are increasingly creating partnership delivery models where there is a shared growth objective with our clients. In the public sector, this has seen us supporting clients in commercialising their existing assets, for example through AXELOS, our public sector subsidiary partnership with the Cabinet Office, and Entrust, our public sector subsidiary partnership with Staffordshire County Council. These solutions can deliver a growing revenue stream, return funds to taxpayers and create new jobs as well as protect existing employment.

In the private sector, our solutions are increasingly designed around financial models which incentivise revenue growth to the mutual benefit of both the client and Capita. For example, our partnership with O2, where we are increasing up-selling opportunities and improving customer retention.

Evolving client relationships



	Single service platforms	Multi-service/ mid-sized contracts	Transformational outsourcing	Transformational partnering
Client objectives	Clients benefit from Capita's shared platforms, economies of scale and reduced admin costs.	Support demand, transformation, cost saving Provide flexibility, introduce innovation, mitigate/change risk.	Reduce costs Improve services Improve outcomes.	Partnering behaviour Deep market knowledge Financial stability Growth track record.
Relationship structure	Delivered via Capita on/offshore platforms Annual roll-over, high repeat rate or secured under medium contracts of 2-5 years Increasingly secured via frameworks in the public sector.	Average 5-10 year contract length and increasingly longer On/offshore delivery Vanilla products and increasingly more complex, added value services Fixed/variable pricing.	BPM contract Fixed term (10+ years) Total contract value – fixed Risk transfer KPI driven.	Long term partnership New commercial model/mutual Contracted revenue plus evergreen concession Specialist SMEs/ subcontractors Focus on growth.
Client selection area	Flexibility and control Specific expertise Benefit from cost efficient shared platforms Best of breed technology and infrastructure.	Expertise in multiple workstreams Benefit from cost effective shared platforms Expertise in customer analytics.	Financial stability Scale economics 'Referenceability' Cross-sector experience.	Partnering behaviour Deep market knowledge Financial stability Growth track record.

Generating profitable growth and creating value continued

Creating innovative solutions

Detailed knowledge, data and understanding: We start by listening. Understanding the current and future requirements of both our clients, their wider stakeholders and the environments they work in.

Our business development teams are resourced by market experts, who maintain open and detailed dialogue with their peers to understand the unique challenges and opportunities evolving in each sector we operate in. By engaging in a two way dialogue during any bid process, we can help clients articulate their challenges and shape solutions to directly address them.

At the same time, our user-centred service design practice engages with a cross-section of individuals to understand the ways in which people interact with a service. We look to proactively tackle the frustrations and points of failure customers experience from a service, reducing the need for additional contact and improving customer loyalty.

In turn, services that are easy to use deliver downstream savings. By understanding customers' experiences, expectations and nuances, we can model expected costs, revenues and loyalty in the solutions we design for our clients.

Creating transformational, innovative services: The disruption brought about by digital has increased choice and reduced the potential for loyalty amongst customers. Organisations must work harder to attract and retain their customers, while listening and communicating across multiple channels.

Capita's solutions teams design services to help organisations adapt and meet the challenges of the digital age. Our behavioural science practice analyses how groups and individuals are expected to interact with a service, and how they can positively influence these behaviours to improve outcomes for organisations and individuals. Our analytics teams build models to analyse data on how services are currently used, how information can be most efficiently handled and predict future trends.

Our user experience experts and solution architects then design solutions, informed by this data and behavioural knowledge, that best meet the needs for both the end user of the service and our client. As organisations have adopted digital technologies and users have shifted to new channels, we help knit everything together into one seamless, coherent journey.

We deliver, test and refine: Our sales and operational teams work together, ensuring continuity from initial tender and throughout the contract life-cycle. We identify operational teams responsible for transition and delivery early on in the bid process, ensuring we have the appropriate skills and resources in place to deliver on our commitments. This includes expertise from disciplines including HR, operations, marketing, technology and communications. On our transformational deals, our transformation practice will support the transition and bedding in of the contract, providing expertise in organisational change, project management and process re-engineering.

Our two-way dialogue with our clients continues through the contract life-cycle, where we design services that are forward-looking and flexible to adapt to changing market conditions, helping us add value to our clients and become an integral part of their operating models.

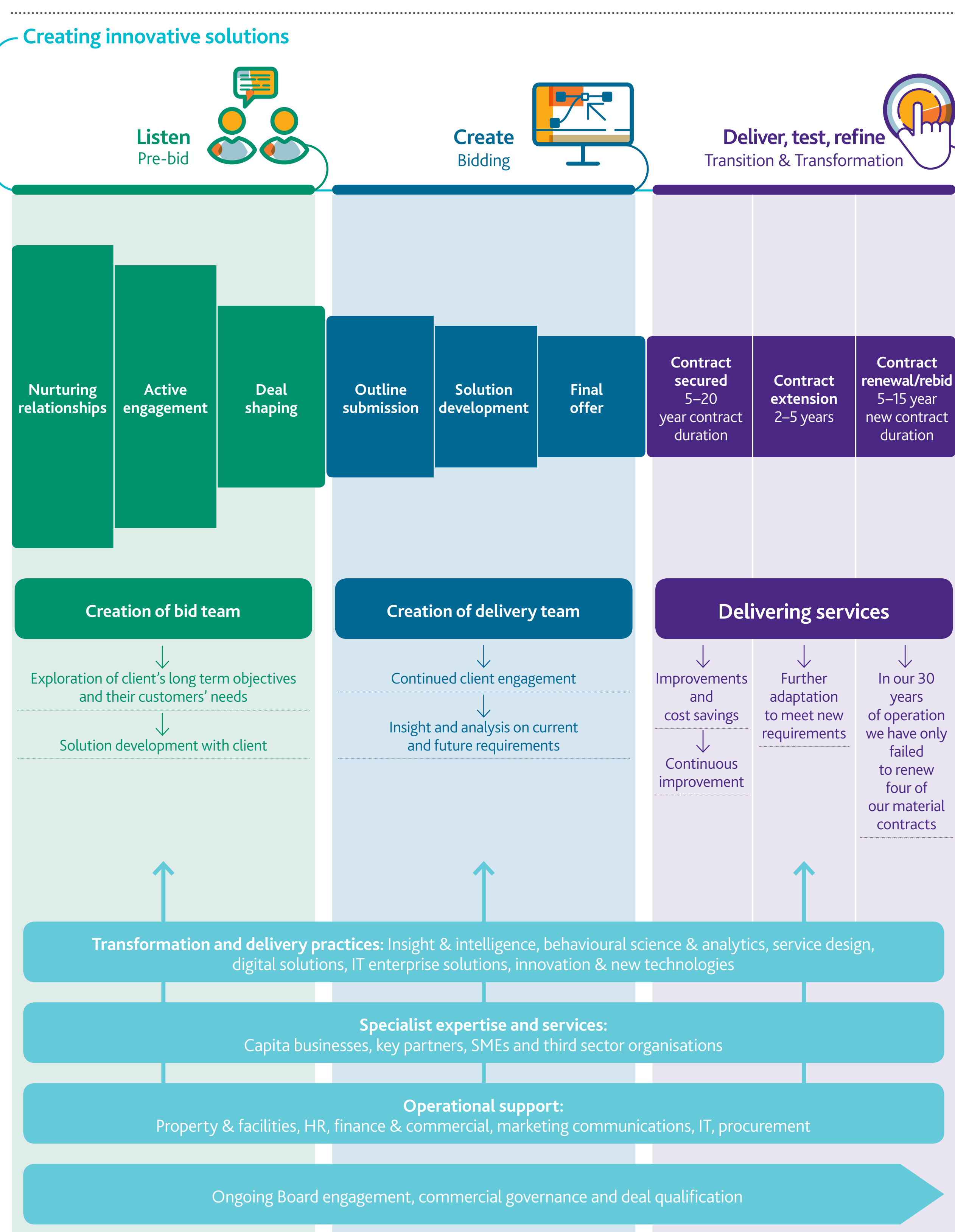
Many of our customers are now moving towards long term transformational partnerships, where we become an integral part of their operations and support their revenue model. Future-proofing these solutions and ensuring their long term success requires ongoing dialogue as we test and refine services to meet evolving market conditions.

Turning innovation into action

In August 2014, Capita was ranked at number 60 in Forbes magazine's listing of the world's most innovative companies, and was one of only four UK companies on the list. The ranking is based on investors' ability to identify businesses they expect to be innovative now and in the future and acknowledges the quality, intelligence-led solutions we create for our customers.

During the year, we also launched our innovation micro-site www.createtomorrow.co.uk. The site showcases innovative tools and new ways of working in action, demonstrating how they can be of value to organisations, accompanied by insights from experts leading the way in their field.

For details, visit **www.createtomorrow.co.uk**


Creating innovative solutions
Listen
Pre-bid
Create
Bidding
Deliver, test, refine
Transition & Transformation
Nurturing relationships
Active engagement
Deal shaping
Outline submission
Solution development
Final offer
Contract secured
5–20 year contract duration
Contract extension
2–5 years
Contract renewal/rebid
5–15 year new contract duration
Creation of bid team
Exploration of client's long term objectives and their customers' needs
Solution development with client
Creation of delivery team
Continued client engagement
Insight and analysis on current and future requirements
Delivering services
Improvements and cost savings
Continuous improvement
Further adaptation to meet new requirements
In our 30 years of operation we have only failed to renew four of our material contracts
Transformation and delivery practices: Insight & intelligence, behavioural science & analytics, service design, digital solutions, IT enterprise solutions, innovation & new technologies
Specialist expertise and services:
Capita businesses, key partners, SMEs and third sector organisations
Operational support:
Property & facilities, HR, finance & commercial, marketing communications, IT, procurement
Ongoing Board engagement, commercial governance and deal qualification

Generating profitable growth and creating value continued

Generating and securing a pipeline of quality opportunities

Capita's pipeline represents our major bid opportunities that have reached shortlist stage. It provides a fair indication of the health of the outsourcing market and can be a useful indicator of likely future organic growth.

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

Our bid pipeline is subject to clear criteria:

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

Procurement process

The procurement process, especially in the public sector, can be costly to pursue and we maintain stringent criteria to focus resources only on opportunities where we see a real prospect of success. If at any stage we feel that procurement 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 overly reliant on external factors that are out of our control.

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.

Securing appropriate pricing and contract terms

Our major contracts are long term commitments. It is therefore essential that our pricing and contract terms are correct from the start 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.

To ensure prudent pricing, we clearly separate responsibilities between sales teams (client relationships), sales support teams (pricing and risk models) and the Group Board (solution and pricing approval).

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 which means we have a good view of stable, long term revenues.

Tracking performance

For each major BPM contract, we commit to a range of contract specific performance metrics in order to ensure that we are meeting clients' expectations. Management has a clear line of sight to, and responsibility for, the performance of their particular businesses and contracts and their performance is tracked through our robust management and governance structures (see page 36). As a result, clients find that outsourcing actually gives them more control over support operations as they are able to directly measure service costs and outputs.

Our partners

However complex the challenge, we bring together the right people and skills to design and deliver the best solutions to our clients. In order to create the most innovative and forward thinking proposals, we work with a range of niche, specialist partners, from SMEs, the third sector, agencies and bodies where they can bring unique expertise and insight.

Retaining and expanding contracts

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

See page 06 for our 2014 major sales update

Fuelling future organic growth through acquisitions

Our strategy is to make acquisitions to enhance our future organic growth potential and drive value creation for shareholders, with a 15% post-tax ROCE hurdle rate.

A defined process

Potential acquisitions are identified and brought to the Group by our employees, external consultants or through a direct approach, with all deals assessed, priced and agreed by the 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.

See page 88

Acquisitions

During 2014, we continued to focus upon acquiring small- to medium-sized businesses to enter new markets, build capability in existing areas and enhance our sales propositions to facilitate future organic growth. We invested a total of £310m[1] on acquisitions, excluding deferred and contingent considerations, acquiring 17 organisations in markets such as utilities and transport software, IT, networking, mortgage administration and Germany.

In February 2015, we announced our intention to acquire avocis, a leading provider of customer contact management services in Germany, Switzerland and Austria (DACH), for €210m (£157m) on a cash/debt free basis. avocis has a strong position in the German speaking regions of Europe serving similar sectors to Capita's UK-based customer management business, with high quality, long term clients particularly in telecoms and utilities.

Our acquisition pipeline contains a number of interesting opportunities and we anticipate maintaining a long term total acquisition spend of between £200m to £250m per annum.

To help fuel future organic growth, we acquire small- to medium-sized businesses to broaden our capability and enter new market sectors.

Maggi Bell
Group Business Development Director

Acquisition criteria:

overall fit with our strategy and core competencies

add complementary new capabilities

access to a new customer base

opportunity to create a growth platform in a new market

ability to strengthen our existing market positions

ability to generate sustainable, quality revenues

potential to build economies of scale

operations that are principally based in the UK, Ireland or Northern Europe

can be secured for an attractive price.

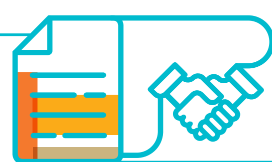
1 As previously announced.

Generating profitable growth and creating value continued

Successful integration

Our experience in successfully integrating acquired operations has given us a tried and tested on-boarding operation. Where appropriate, we communicate and implement values and processes up front, so we are quickly able to achieve synergies, generate value from acquired assets and enable a smooth transition. We also recognise that for certain operations, a company's success may be down to its independence and agility within the market. In these cases, we may take more of a strategic oversight of the business, implementing our standard risk and reporting processes while allowing the business to operate at arm's length.

Acquisitions



During 2014 we completed 17 acquisitions, acquiring 100% of each business.

Value in brackets represents maximum consideration.

January

Liberty Services

Value: **£6.5m**

Capabilities/sector: Document management/ all sectors

Reason: Enhancing existing offering

February

Retain International

Value: **£18.8m + (£3.8m)**

Capabilities/sector: People management software tools

Reason: Expanding workforce management capability

March

Network Technology Solutions (UK) Limited

Value: **£5.7m**

Capabilities/sector: IT security reseller and IT managed security services & software/all sectors

Reason: Expanding our capability

Updata Infrastructure (UK) Limited

Value: **£80m + (£2.5m)**

Capabilities/sector: IT networking and connectivity services/ primarily public sector

Reason: Expanding our IT networking capabilities

May

Stirling Park LLP

Value: **£12.5m + (£3.5m)**

Capabilities/sector: Debt collection and sheriff officer services/ all sectors inc. Scottish local authorities

Reason: Expanding debt capability

AMT-SYBEX Group Limited

Value: **£82m + (£23m)**

Capabilities/sector: Growing capabilities in utilities sector

Reason: Software and data/utilities and transport

See page 35

Crown Mortgage Management

Value: **£7.5m**

Capabilities/sector: Residential and commercial mortgage administration/ financial services

Reason: Expanding into a new financial services market

See page 45

June

tricontes GmbH

Value: **£4.1m + (£2.1m)**

Capabilities/sector: Customer management/ Northern Europe: Germany

Reason: Extending the reach of our existing capability

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

We are committed to generating returns for shareholders and apply a target of achieving a 15% post-tax return after 12 months integration into the Group. The majority of our acquisitions achieve or exceed this target return.

Disposals

If an area of the business consistently underperforms or is no longer considered integral to the Group, we will undertake a detailed review and dispose or close the business area as appropriate. In 2014, we disposed of our corporate occupational health business as it was not considered to be core to the Group's future operations.

July

Projen Holdings Limited

Value: **£7.7m + (£2.8m)**

Capabilities/sector: Property project management/all sectors

Reason: Expanding property and infrastructure capability

Monarch Education Holdings Limited

Value: **£15.2m**

Capabilities/sector: Education resourcing education

Reason: Expanding the reach of our existing capability

August

SouthWestern Business Process Services Limited

Value: **£28m**

Capabilities/sector: Outsourced managed services (Ireland)/all sectors incl government, agriculture in UK and Ireland

Reason: Extending the territorial reach of our existing capability and access to new market segments

See page 19

September

Eclipse (Hardware) Limited

Value: **£11.5m + (£5m)**

Capabilities/sector: Case management software & services/legal

Reason: Expanding our software capability and further penetration into legal sector

Throgmorton UK (No. 2) Limited

Value: **£6m + (£2m)**

Capabilities/sector: Back office administration/financial services

Reason: Extending existing financial administration offering

November

PageOne Communications Limited

Value: **£4m + (£2.5m)**

Capabilities/sector: A provider of integrated mobile communications solutions

Reason: Enhancing our mobile communications capability

December

Worcestershire CC's IBS Schools business

Value: **£1.45m**

Capabilities/sector: IT services to schools and academies in Worcestershire

Reason: Builds on the strength of our existing SIMS business

Complete Imaging Limited

Value: **£6.6m**

Capabilities/sector: End-to-end managed print service – supplying equipment to online print management software/all sectors

Reason: Expanding existing print capability & capacity

Solid State Solutions Ltd (S3)

Value: **£13m + (£0.6m)**

Capabilities/sector: Identification and provision of bespoke data storage solutions/all sectors

Reason: Expansion of our data storage capacity and solutions

Case study

Creating a Strategic Business Partner for the DIO

Capita, with its strategic sub-contracting partners URS and PA Consulting, was selected by the Ministry of Defence (MoD) to drive the transformational change of the Defence Infrastructure Organisation (DIO) over a 10-year period.

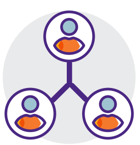
Supporting the MoD in the management and transformation of its national and international infrastructure, Capita took over full operational management from September 2014. During the course of the 10-year contract, Capita will work with the MoD and other partners to support defence capability by:

- leading the development of a new footprint strategy to rationalise and re-shape the existing defence estate, resulting in greater efficiencies and increased disposal receipts while maintaining operational output
- accessing a range of new commercial initiatives and capabilities that will generate major savings for the MoD while not diminishing the level of service to the Armed Forces community, including families and dependants
- injecting new and innovative ways of working to achieve peak efficiencies and more effective solutions and services, releasing resources to benefit the estate and drive down operational running costs
- embedding a world-class, integrated senior leadership team that can set the strategic direction of the organisation and lead the business through the transformation process
- developing and training the existing DIO staff at all levels to help increase their effectiveness in support of UK defence outputs while ensuring greater workforce efficiency and effectiveness.

The main objectives of the partnership are to:

inject new and innovative ways of working to achieve peak efficiencies

access a range of new commercial initiatives and capabilities



build an integrated senior leadership team

develop and train the existing DIO staff at all levels

Capita was selected for its record of delivering innovative change to public sector organisations. The focus of Capita's proposal was not solely on the estate elements of the business – it also recognised the value of developing and mentoring DIO staff to enhance performance.

The proposal contained approximately 70 initiatives across the business to address the MoD's needs and drive savings. These ranged from footprint and estate strategies, optimising usage and value with accurate cost measurement, through to introducing market-leading technology to drive down utilities spend across the defence estate. This contract is at an early stage, but significant steps have been taken that will realise savings over time. There is a natural tension between meeting short term financial constraints, existing business as usual challenges and delivering spend to save initiatives. However, the new management team is committed to laying the foundations to deliver long term and sustainable savings.

Defence is a key growth sector for the business; the DIO contract joins the Army's Recruiting Partnering Project as major contracts Capita is delivering for the MoD. The success of the DIO contract will demonstrate the added value that Capita can deliver not only to the defence sector but also to the wider industry.

Contract won
September 2014

Value
£400m over 10 years

Core business
The management and transformation of the UK's national and international defence infrastructure

Photo: Graeme Main/MOD

Strengthens Capita's relationship with the Ministry of Defence

Builds on Capita's reputation for delivering transformation and innovative change to public sector organisations

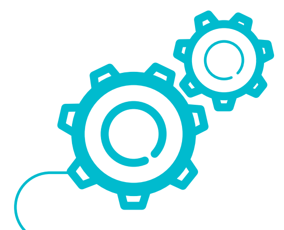
Generating profitable growth and creating value continued

Maintaining and developing our infrastructure to support our growth

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

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

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



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

Maggi Bell
Group Business Development Director

A dedicated and skilled workforce

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

Our 68,000 employees play a key role in our clients' operations, designing, transforming and delivering their customer management and administration and providing first class support services. They have contact with clients and their end customers across a wide range of industries and public services. We strive to ensure that they are fully trained and supported, enabling them to deliver the best possible service for our clients.

Diversity and inclusion: Our aim is to attract the best people from the broadest talent pool so that our teams reflect the communities we serve and deliver a better service for our clients. We ensure our recruitment and management processes do not discriminate and encourage people to raise any issues through our open door policy so that we can identify and swiftly resolve them. All our employees are required to complete online diversity awareness training every three years and we monitor compliance on a monthly basis. As we expand into new areas of business, we face new challenges and we aim to build teams that understand those needs, so that they are equipped with the skills and behaviours they need to provide a high level of appropriate service.

Knowledge sharing: Our straightforward, flat management structure, promotes knowledge sharing and encourages entrepreneurship across the business. Our internal reporting processes provide a forum for the management across the business to share knowledge, skills and ideas. More informal collaboration is also encouraged through day-to-day reporting, team working mechanisms and our incentive structures. We have also developed and rolled out online collaboration tools for our sales, marketing and business development communities, where colleagues can share ideas.

KPI Development and training: Developing our internal talent is a key part of our strategy and success, as illustrated in our robust succession planning procedures that ensure we maintain stable leadership. We actively reassign managers to new business areas, sharing innovation and skills across the business and providing our employees the best opportunity to grow and develop. In 2014, our retention rate for managers across the Group (divisional directors and senior management team) was 97%, many of whom have progressed to management positions during their careers with Capita, demonstrating our ability to motivate and develop employees.

This year also saw the roll-out of a new talent development programme, to help further retain and promote internal development across the Group.

We aim to attract and retain the best possible talent across our business and recognise that rewarding people's individual achievements plays a key part in this. Remuneration packages and local performance schemes are managed by individual businesses, supported by corporate guidance, to ensure they are competitive within their markets and they reflect terms and conditions and any collective arrangements. We offer a wide variety of learning and development opportunities for all our employees including online training, workplace training, coaching and group instruction. This year, we invested £17m in training across the Group (2013: £14m).

Our performance management system helps us to identify talented employees who have the potential to be one of our future leaders. This includes our 'Lead the Way' graduate programme which is open to new applicants and existing employees who have graduated within the previous five years. The programme, which currently has 57 participants, offers a placement within one of our divisions, resulting in a permanent position if successful. Graduates also have the opportunity to work towards an MSc in leadership and management with mentoring by a member of the senior management team.

Successful on-boarding and transformation: With approximately 70% of our employees having transferred to Capita under TUPE (Transfer of Undertakings, Protection of Employment) regulations, we have a detailed process of managing and integrating these large scale employee transfers well. We provide a nurturing environment for our employees to grow and advance their careers, beyond their own business or contract through the wide variety of services and markets in which Capita operates.

Our values

We have a clear set of values, which include: respect and support, consistency in managing our employees, delivering consistent, high quality services and giving our employees autonomy and responsibility in their roles. In 2014, we refreshed our values and implemented a Group-wide programme to bring them to life, engaging our employees across the business. Our values, as well as all Group policies and principles, apply to all our employees, wherever they are based. As we enter new international territories, we continually adapt our policy and training materials to comply with, or exceed, the legal and regulatory requirements of the countries in which we operate.

Our management is committed to creating an inspiring, open, supportive and secure place of work for all our employees to achieve their full potential and keep us at the forefront of the BPM market.

Managing health and safety

The health and safety of our employees is essential to our business model. Most of our work is office-based, requiring a strong focus on health and safety issues such as slips, trips and falls and workstation assessments. However, we have an increasing number of field force workers, who may face different issues. We monitor our health and safety performance across the business and, in 2014, our accident rate was 1.49 per 1,000 employees, showing a 35% reduction in reportable accidents from our baseline in 2004 (2013: 1.42).

Health and safety risk for all our activities is managed through the Group-wide health and safety management system. Our Group health and safety team works with managers to identify hazards, assess risk and take appropriate action at each particular site. This includes assessing all new contracts and acquisitions to ensure that they are in line with Group standards.

Human rights

We understand our responsibility to respect the human rights of our employees and those of the communities in which we operate and we support the principles set out in the articles of the United Nations' Universal Declaration of Human Rights, and the International Labour Organisation (ILO) Core Labour Principles. In 2014, we further strengthened our approach through the introduction of a formal human rights policy, covering all our operations. As a services business, we mainly focus on labour and workplace rights, including fair working conditions, freedom of association and collective bargaining.

We have a full range of policies relating to our approach covering employee, supplier, environmental and governance practices and requirements. For more information, visit www.capita.co.uk/responsibility.

Generating profitable growth and creating value continued

Employee engagement: Listening to and valuing the opinions of our employees is good for productivity and retention, and it helps shape our future business. We engage with employees in a number of ways, from face-to-face conversations with managers to our annual employee survey. Structured around our core values, the employee survey helps us identify what we're doing well and what we can improve. In 2014, 48% of our employees responded to our employee survey (2013: 46%). We are now using the results to shape our 2015 strategy.

A Group-wide employee recognition scheme, the Capita People Awards, celebrates employees who are excelling in one of five categories that reflect behaviours that Capita consider key to the success of the business – service excellence, innovation and improvement, teamwork, leadership, and charitable support and community engagement.

See our corporate responsibility performance measures on page 53

2014 employee survey

A record 48% of our employees responded to our 2014 annual Group-wide survey, providing us with a healthy balance of opinions regarding how Capita people feel about working within our business.

The survey results once again identified Capita as a 'good employer' – with our 'Employer of choice score' improving from 2.89 (2013) to 2.94 (with 4.00 being the maximum possible rating). This improvement actually bucks the trend currently being experienced by many sectors, where a deterioration was common place in 2014.
This was reinforced by 73% of respondents indicating that they believe Capita is 'a good place to work' (up from 71% in the previous survey).

As ever, there are areas to work on – improving communication and cooperation between divisions continues to be an area of challenge. In addition, supporting employees in understanding the 'bigger picture' of what is going on across the organisation as the business continues to grow at pace is an emerging issue which the Board has noted.
Other factors that the Board are proactive in recognising and, where applicable, addressing, include supporting employee ideas for improving business functions (down to 74% from 80% in 2013) and a willingness to help others outside of usual activities (down 71% from 74% previously).

The Board is encouraged that overall scores improved for 23 of the 40 questions asked this time. Since the 2014 survey was structured to reflect Capita's values – the results help to shine a light on how we are doing in living out the behaviours that underpin the way we operate.
As we continue our drive to embrace these values, we will strive to make improvements where needed over the year ahead.

Our Infrastructure

KPI

Our delivery network consists of 80 multi-service centres in the UK, Ireland and Channel Islands, Poland, India, South Africa and Dubai. These are complemented by over 400 business sites, predominantly in the UK, Ireland, and Northern Europe with smaller satellite offices in global locations supporting specific businesses and financial jurisdictions.

The diversity of our infrastructure means we are able to leverage a mixture of service delivery options to offer our clients maximum flexibility, quality and cost effectiveness through onshore, nearshore and offshore locations. We also leverage our own experience as a large organisation to rationalise property and associated back office functions where appropriate.

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

Multi-service delivery centres

UK, Ireland and Channel Islands

68 centres

The majority of our 68,000 employees are based in our 68 multi-service business centres across the UK, Ireland and the Channel Islands. These sites deliver the full life cycle of services from front end customer management to back office administration for all our clients. In 2014, we enhanced our presence in Ireland through the acquisition of SouthWestern. The business has contributed significantly to our infrastructure and capability in Ireland, delivering customer management and back office services from a multi-service delivery centre in County Cork.

Northern Europe

5 centres

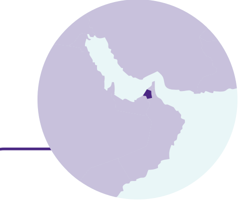
With the acquisition of SouthWestern we continue to deliver high quality, cost effective services including insurance, finance and legal administration and customer management across our Northern European operations. We now employ over 700 skilled, multi-lingual FTEs from two sites, in Krakow and Lodz. Following the acquisition of tricontes in 2014, in 2015, we increased our footprint in Germany with the acquisition of Scholand and Beiling and will increase our scale further following the completion of the acquisition of avocis which will enhance our customer management proposition in the region.

India 5 centres

Our five multi-service business centres in India now employ over 5,000 people, playing an integral role in our offshore solutions. We deliver a range of services from transaction processing through to knowledge based back office functions from sites in Mumbai, Pune and Bangalore.

South Africa 1 centre

Our delivery centre in Cape Town, South Africa, secured new clients and created over 1,000 new jobs during 2014, providing customer management services that continue to support our growth in the UK.



Dubai 1 centre

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

Generating profitable growth and creating value continued

Our technology

As advances in technology continue to streamline processes and the flow of information, we ensure all our solutions are underpinned by effective IT. As the pace of change in digital communications continues to drive increased expectations for efficiency and quality from end-users, we are constantly evolving the technology that supports our services and enables transformation of our clients' services.

Deploying the most efficient technology, leveraging our existing IT infrastructure, rationalising duplicate processes and integrating common systems allows us to improve administration and deliver cost savings to our clients. In addition to the IT infrastructure that underpins our operations, we are expanding our expertise and solutions that bring together the increasing number of customer channels our clients offer, helping them provide consistent interactions and a joined up digital proposition.

In 2014, we continued our strategy of internal innovation, acquisition of complementary organisations and forming strategic technology partnerships to add capability in this area and support our overall offering.

See acquisitions chart on page 26

Our processes

Our track record of large scale service transformation has allowed us to develop well refined processes to successfully integrate operations and transform services. The breadth and scale of Capita's operations allow us to streamline administration, standardising and automating processes where appropriate and find synergies and economies of scale through using our shared multi-service delivery centres.

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

KPI Our suppliers

With a diverse supply chain of some 35,200 organisations and spend of around £1.4bn a year, we use our extensive scale to procure services cost effectively and share these benefits with our clients. Our strategic suppliers are closely managed by our Group procurement team. This team builds strategic partnerships and supports a network of local procurement specialists within individual businesses to apply consistent standards and economies of scale across the Group. Effective supply chain management means we regularly meet with key suppliers to share knowledge, review performance and examine where we can collaborate. This investment means they understand our business, can help us forecast demand and identify opportunities for improvement.

Our responsible sourcing policy, which we refreshed in 2014 in line with our formal human rights policy, outlines the principles and standards we expect from our suppliers, including the health and safety of their employees, human rights, working conditions, anti-bribery and corruption and environmental management. We assess the risk associated with each supplier based on the amount we spend with them, what they supply and where in the world they operate. This assessment determines how we engage with them to ensure they comply with our policies.

Where we have acquired a new business, our procurement team undertakes a risk assessment of the business' suppliers. This is part of the due diligence process to ensure that they meet Capita's standards before they migrate to become one of our suppliers.

To help us manage our supply chain, we have adopted an external online CR performance assessment and benchmarking platform which we are rolling out in stages. As a supplier to other organisations, we also undertake this assessment and in 2014 improved our score, retaining our silver ranking.

Diversity in our supply chain: We aim to work with a diverse range of suppliers, and we actively encourage SMEs, voluntary and community organisations and social enterprises to be part of our supply chain. Currently 70% of our supplier base are SMEs. Where possible we support the communities in which we work by using local suppliers.

See our corporate responsibility performance measures on page 53

Case study Acquisition of AMT-SYBEX

The acquisition of AMT-SYBEX in May 2014 is helping Capita to expand further into the transport and infrastructure markets, as well as strengthen our mobile technology and smart data management offering.

AMT-SYBEX complements the Group's existing presence in the energy market, supporting our experience in transformational change and improving efficiencies while enhancing specialist skills to improve customer attraction and retention.

Fuelling organic growth

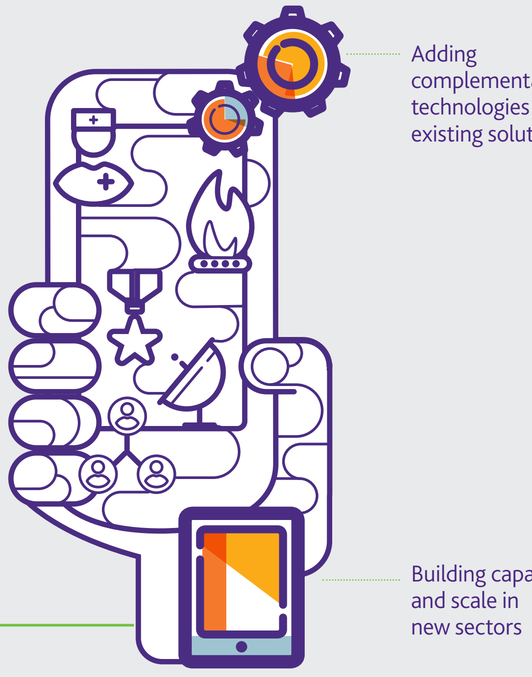
Following a successful integration into Capita, further opportunities to generate organic growth have come from strengthening existing customer relationships. A high-profile energy company that contracts with both Capita's Customer Management business and AMT-SYBEX for different elements of its customer management process is now working with both organisations to transform its entire customer experience.

In sectors where Capita has a long-standing presence, AMT-SYBEX has been able to integrate their mobile technology offering for existing clients. 'Affinity Fieldreach' – the business' digital mobile solution, provides a multi-platform environment for designing and deploying digital processes to mobile devices including the ability to capture, analyse and distribute the results. This mobile capability is a particularly strong addition to Capita's capabilities, providing flexible functionality that we have previously not been able to offer to customers.

As well as adding value to Capita's existing propositions, AMT-SYBEX has continued to drive further organic growth within its existing sectors, agreeing a major new contract with the gas transporters' agent, Xoserve, in May 2014. The solution will see AMT-SYBEX's 'Affinity Marketflow' software help bring about transformative change for the UK's competitive gas market.

The business has delivered strong mobile license sale revenues to its client base this year, and embarked on a number of significant 'smart energy' projects.

With these services now regularly built into all Capita's major sales solutions, we will be providing a more extensive offering to our clients, based on key differentiating technologies that deliver real value.



Adding complementary technologies to existing solutions

Building capability and scale in new sectors

Acquisition date
May 2014

Core business
Software and services for mobile technology and smart data management

Employees
250 based in Dublin, Belfast, Glasgow and Letchworth

Value
£82m, plus £23m contingent consideration

Key customers
Utilities and transport companies including: Gas Networks Ireland; Four of the 'Big Six' energy suppliers in the UK; National Grid; Transport for London; and Network Rail

Strong leadership and robust processes

A key element in Capita's business model is the approach we take to supporting and controlling growth. Clear policies, procedures and robust systems are embedded across finance, operations, governance and risk management, led by an inspiring, strong management team.

Effective controls and risk management

Managing our business

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

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

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

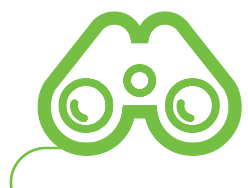
Robust, straightforward structure

2014 has seen Capita continue to grow and diversify its operational and regulatory footprint. In addition, the outsourcing sector has seen increased scrutiny by stakeholders of the role that outsourcers play in delivering services. These have included:

- Reports by the Public Accounts Committee and others into various aspects of public sector outsourcing which have emphasised the need for greater transparency, demonstrable control over outsourcers and demonstrating cost effectiveness; and
- Increased work by the Financial Conduct Authority into outsourcing by asset managers, the results of which are often applied across all FCA regulated businesses.

Adapting to these changes, we have continued to successfully operate our business, track our performance and manage the risks arising through our robust management and governance structures.

Our approach continues to be to provide all levels of management with a clear line of sight to, and responsibility for, the performance of their particular business, development of market opportunities and management of the key risks. These structures develop over time and 2014 has seen further enhancements put into place. The core objective of this approach remains the same: to underpin the success of the businesses as a whole while promoting a culture of transparency and responsibility at every level.



Business management

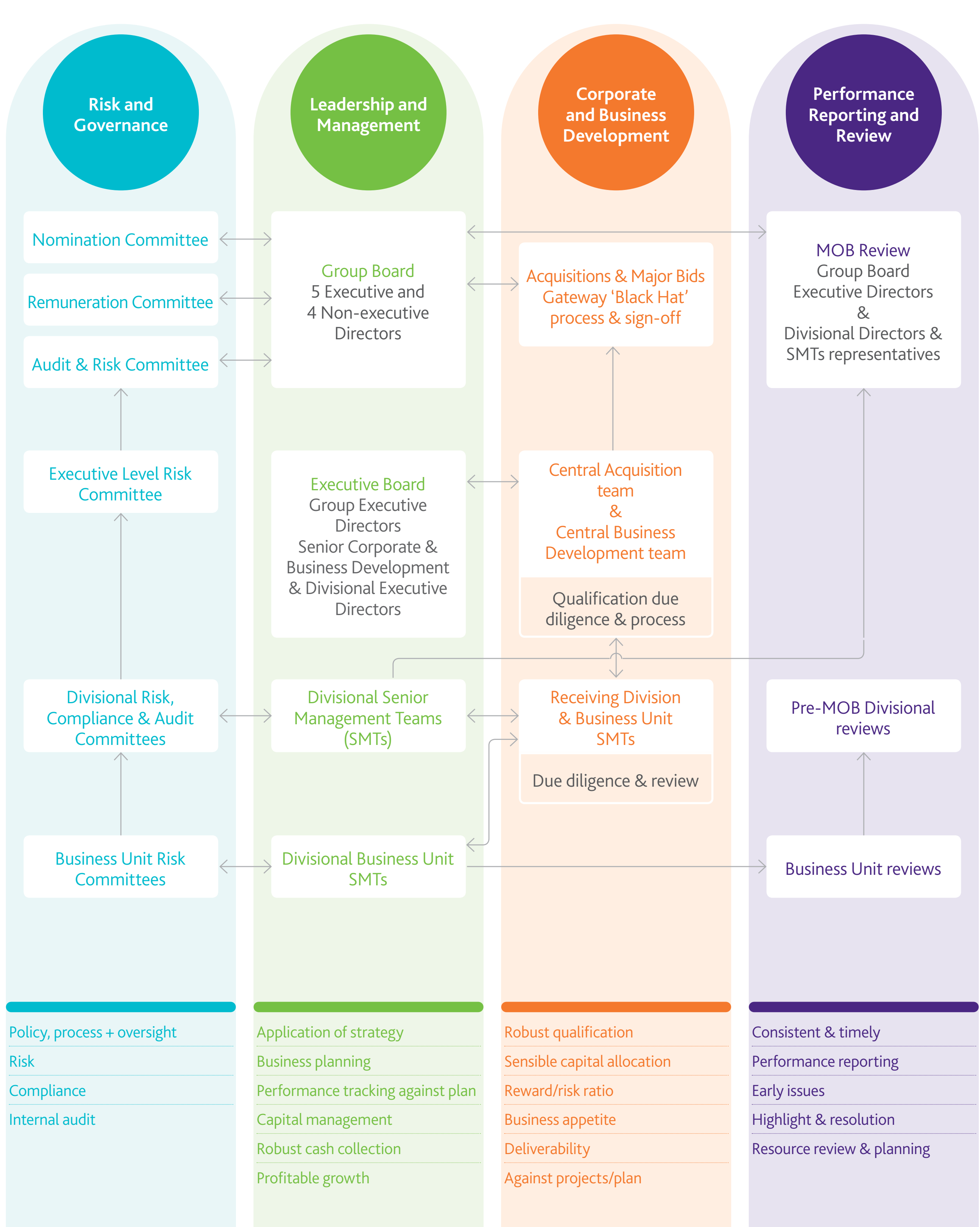
Capita's overall Group business strategy and model is based on the Board's strategic direction and risk appetite, together with the input of divisional managers who remain close to their markets and best understand the challenges and opportunities within them. A similar approach is adopted for acquisitions,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

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

Having set the strategic direction for the business, the Board monitors the ongoing achievement of these underlying goals. This is primarily the responsibility of the Joint Chief Operating Officers (COOs) to whom the divisional executive directors report on a regular basis; the Joint COOs in turn report to the Group Board.

Having set the strategic direction for the business, the Board monitors the ongoing achievement of these underlying goals.

Management and governance structure



Strong leadership and robust processes continued

Performance management

Our overall business management, financial and operational reporting from across the Group is managed through our Monthly Operating Board (MOB) reviews.

Initially, the performance of a division's business units is collated and discussed at 'pre-MOB' meetings, chaired by the divisional executive director, where their team reports on business and financial performance, business opportunities and, importantly, any client or operational challenges.

This information is then provided by the individual divisional executive directors to the Executive Group Board through the main MOB meetings. Reporting business operations through this process allows the Executive team to fully understand financial performance and projected outturns, key business opportunities and risks on a month-by-month basis.

In addition, MOB reviews provide a structured and consistent line of sight from Board level down to the businesses within each division and have proven to allow a quicker development of opportunities and resolution of issues.

Risk management

Controlled risk taking is fundamental to the organisation's success, ensuring that risks and rewards are balanced in the pursuit of sustainable, profitable growth. Capita is not risk averse, it looks to actively manage risks which it has scrutinised and has an appetite for within our underlying risk and tolerance framework.

New Risk Management Framework

During 2014 the Group Board approved a new Risk Management Framework. The Board recognised that the approach to risk management which had successfully served the group through recent growth required renewal. This was to reflect the increased size and complexity of our businesses and the on-going desire to balance risk and opportunity. It also reflects our belief that effective risk management underpins the delivery of the right outcomes for our clients and end customers. The new framework is centred on four key elements:

- a common definition of risk that is used consistently throughout the organisation
- a group-led common risk framework that protects the business from unnecessary risk exposure, whilst still allowing divisional and business management to operate with sufficient flexibility to react to market needs
- a common risk management infrastructure that supports the organisation in the performance of its risk responsibilities
- a governance structure with appropriate transparency and visibility into the organisation's risk management practices.

The risk appetite has been overhauled to provide a clearer definition, across 22 risk categories, of the Board's tolerance to risk and therefore where actions to mitigate risks beyond tolerance need to be taken. A single approach to risk reporting at all levels of business is starting to provide greater clarity of the risk profile to a refreshed risk governance framework.

During 2014 we have commenced the implementation of the Framework across our businesses, replacing our legacy risk measurement and reporting with the new approach. This implementation phase will run into 2015.

We believe that conducting our business with integrity, applying a high level of skill, care and diligence to what we do, services the interests of all our stakeholders. This allows us to grow in a controlled manner, and achieve our business goals.

The risks Capita faces evolve over time as a result of both the changing size and complexity of our business and its services but also through changes in the external legal, economic and regulatory environment. In 2014, we have seen the following developments in the wider risk environment:

- increased understanding of the extent of 'cyber' threats facing UK plc including the activity of hacktivists and those seeking fraudulent access to funds, data and information
- increased European regulation in areas such as data protection and asset management
- economic pressures raising litigation risk around asset performance
- UK regulatory developments around 'conduct' requiring greater focus on end customer outcomes in financial services and utility industries
- increased focus on environmental risks through carbon pricing and energy.

See page 42 for details regarding our principal risk categories

Our risk management activities seek to protect the business from unnecessary risk exposure, whilst still allowing divisional and business management to operate with sufficient flexibility to react to market needs. It also helps us demonstrate to clients, end customers and regulators how we take our responsibilities seriously.

As Capita's business model devolves certain authority and responsibility to business management at all levels, risk management is primarily the responsibility of those who are in the best position to understand and act effectively. They apply risk management in line with the Group-wide Risk Policy set to reflect the risk appetite set by the Board and within an industry standard 'three lines of defence' model.

Control functions

The Group Risk & Compliance function: has specific responsibilities and acts on behalf of the Board.

The Group Risk & Compliance Director has access to all members of the Board (Executive and Non-Executive Directors) and supports their ongoing training plan. He also has regular meetings with the Executive and Divisional Directors throughout the year. The remit of the Group Risk and Compliance function includes:

- maintaining and overseeing the implementation and execution of the Group Risk Management Framework. Coordinating business unit risk and compliance teams to facilitate Group-wide risk and compliance
- setting the strategic direction for, and maintaining relationships with our various regulators. Reporting on the residual risk profile, significant incidents and regulatory developments to the Audit and Risk Committee and the Executive Risk Committees.

We believe that conducting our business with integrity, applying a high level of skill, care and diligence to what we do, services the interests of all our stakeholders.

Andy Parker
Chief Executive

Strong leadership and robust processes continued

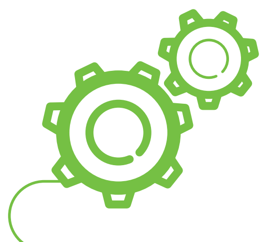
The Group Internal Audit function: has free and full access to all activities, records, properties and employees throughout the Group.

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

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

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

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



The Group's continuing strategy of controlled growth through organic contract wins and targeted acquisitions is overseen through the application of our Risk Management Framework's risk appetite approach during extensive due diligence activities.

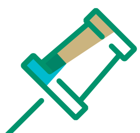
Andy Parker
Chief Executive

Our risk appetite

Risk appetite, as defined in our Risk Management Framework, is the degree of risk the Company is prepared to accept in the pursuit of its objectives before specific action is deemed necessary to reduce it. 22 risk categories have been identified and were used to inform a new Group-wide Risk Appetite which was agreed with the Board in 2014. In determining the degree of risk appetite, Capita reconciles two thresholds:

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

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



Managing our bids and acquisitions

The Group's continuing strategy of controlled growth through organic contract wins and targeted acquisitions is overseen through the application of our Risk Management Framework's risk appetite approach during extensive due diligence activities.

In line with our established Group Due Diligence and Integration Policy and Acquisition Policy, there are 'Black Hat' reviews for all deals. These structured assessments consider the pricing and risk profile in depth. Group Risk & Compliance assist businesses with this due diligence or undertake it directly for our major contract bids and, together with Group Internal Audit, are standing invitees to the key decision making meetings, ensuring key risks are given an appropriate discussion.

Group Internal Audit undertake reviews on certain deals post-completion to ensure comprehensive due diligence was carried out and to feed into the conduct of future deals.

Our collective work in assessing the quality of acquisition targets and the viability of contract bids can lead to us not proceeding on certain transactions and/or contract proposals. This enables us to have greater confidence that, amongst other things, we can translate our bid pipeline into profitable and sustainable business serving the interests of Capita, our clients and end customers alike. The issues that have arisen in 2014 which have, in some cases, led to us not proceeding include:

- tax issues on acquisition accounting
- levels of residual operational risks arising
- contractual terms which we believe are contrary to our best interest.

During 2014, we have further strengthened our Due Diligence and Integration Policy to introduce:

- enhanced stress and scenario testing
- centralised record keeping of key data and assumptions used in significant bids
- more formalised handover of risks identified during due diligence and information on key commercials to receiving Capita business
- greater resourcing and tracking the progress of transition plans agreed.

The Bids & Acquisitions team in Group Risk & Compliance has expanded its work from primarily focusing on financial services deals, applying a similar level of risk assessment and mitigation across wider Group transactions.

In line with Capita widening its regulatory footprint, this team has expanded its own knowledge and working relationships to include regulators such as the Solicitors Regulation Authority, Ofcom and Ofgem.

The Audit and Risk Committee approves annual plans presented to them by both Group Internal Audit and Group Risk & Compliance detailing the team's priorities for the coming year.

Both teams provide regular updates on their progress throughout the year, with regular reports on findings, issues, risk incidents and themes for their attention.

See page 86

Priorities for 2015

- Further developing our group work around Information security and data protection (specifically in light of the upcoming EU Data Protection Regulation).
- Continuing to strengthen our 'business resilience' across the whole Group.
- Supporting our international development by ensuring appropriate standards around employee safety, anti-bribery controls and overseas counterparty risk.
- Continuing to support the integration of our new acquisitions and contracts.

Strong leadership and robust processes continued

Principal risk categories

We operate a total of 22 risk categories which are kept under regular review. Those deemed to have significant potential impact or exposure, as identified through the Group's Risk Management Framework, are detailed below:

Potential risks and impacts	Mitigation activities include	2014 developments
Business environment		
• Changes to the political, commercial or market landscape affect the viability of Capita businesses. Key elements of Capita's business model fail to adjust to changing market needs on a timely basis and become diluted or obsolete • Actions of competitors impact Capita's competitive position.	• Focus on widening scope of existing contracts • Focus on 11 diverse public and private sector markets • Continual work to diversify business operations across new private/public sector markets and market segments.	• Successful entry to new markets and sectors for Capita including mortgage administration, electronic monitoring and AXELOS, our public sector subsidiary partnership with the Cabinet Office • Actively monitored potential political and other developments • Focus from CEO on innovation and responsiveness to change.
Operational delivery		
• Failure to meet contractual terms, milestones and service level agreements in major contracts • Delivery of contracts fail to meet quality, cost or performance expectations • Financial client service penalties • Mismanagement of complex client relationship structures • Loss of contract.	• Operating performance indicators in place for all business and key contracts • Robust contractual and governance mechanism • MOB and Risk Committee challenge and oversight • Risk-based independent assurance (GIA) • Cross-relationship operational, technical and commercial oversight and governance.	• Significant and complex projects now brought within single division to share management expertise and learnings regarding robust oversight and support help focus right management oversight and support • Refreshed risk governance through new framework to track issues and mitigate earlier.
Duty of care		
• Failure to provide adequate duty of care to staff, stakeholders, clients and end customers of our services • End customer detriment • Adverse impact on wellbeing of our employees • Failure of health and safety compliance • Failure of clinical governance in our health-related businesses.	• Safeguarding policy, process and standards • Widespread focus on 'conduct risk' and the delivery of end customer outcomes • Rigorously applied Group-wide health and safety policy, process, training and audits • Incident management system that includes issues around duty of care • Robust operational monitoring and oversight of our health-related activities.	• Successful introduction of Group-wide Safeguarding policy • New health & safety and property portal for reporting and issue tracking/resolution.
Technical infrastructure and resilience		
• Failure to provide adequate IT services to support core services and business needs • Loss of core systems/technology with long term impact on client delivery • System resilience and stability does not meet service delivery needs or expectations • Legacy system maintenance • Inadequate business continuity/ disaster recovery arrangement.	• Adoption of industry standard managed service standards and controls • Robust business continuity/disaster recovery programme • Deployment of issue detection software and resolution practices • Adoption, where appropriate, of ISO27001 standards • Investment into upgraded core IT infrastructure.	• Appointment of CIO to take forward greater development of Group's IT strategy and central provisioning • Commencement of Group-wide business impact assessments to draw up single view of resilience issues • Acquisitions of Updata and other IT/ network firms strengthen our core network provision • Development of cloud capability and move of core systems commenced in 2014.

Potential risks and impacts	Mitigation activities include	2014 developments
Information security		
• Exposures and subsequent contractual and regulatory penalties brought about through failure to protect information/ data assets of Capita, our clients or end customers from loss, theft, alteration or destruction • Failure in the mechanisms to secure or recover sensitive information • Loss or theft of intellectual property • Cyber crime.	• Group-wide policies and procedures • Single information security framework • Risk Committee oversight at all business levels • Staff training and monitoring programme • Incident management system • Cross-Group forum to evaluate issues and effective controls • Local divisional skilled specialist information security resource.	• Refresh of our Group Information Security standards • Group-wide information threat assessment with assistance of third party consultancy • Recognition of importance of Cyber Security risks by Board.
Human resources		
• Failure to attract, manage or retain sufficient, skilled or experienced staff • Morale issues impact productivity and innovation • Costs of increased/excessive turnover of staff • Impact on Capita's credibility as an employer • Key person reliance/management stretch.	• Comprehensive succession planning • Continual development and performance management • Extensive training and development for all staff and management • Comprehensive screening/vetting process in line with roles • Whistleblowing line to ensure any significant staff issues can be reported and escalated appropriately.	• Further roll out of our vetting process to new Capita businesses and internal movers to sensitive roles • Refresh of 'Speak Up' Public Interest Disclosure Policy • Talent management initiatives launched to identify and nurture existing Capita talent.
Partnerships/third parties/outsourcing		
• Contractual dispute with contracted firms • Disruption to supply chain • Service interruption where reliance is placed on the resilience of partner, third party or outsourced relationship • Partners and/or third parties do not act within the intended limits of their authority or do not perform in a manner consistent with Capita's strategies and objectives • Liabilities for actions of third parties • Failure in third parties governance/ inappropriate business practices.	• Group outsourcing (material suppliers) policy • Review of key third party contracts by commercial teams • Monitoring of key outsourced services Service Level Agreements (SLAs) • Partnership governance • Business resilience arrangement of third parties in place to protect key services.	• Refresh and roll-out of revamped material suppliers policy • Greater controls over contract documentation and retention • AXELOS public sector subsidiary partnership with Cabinet Office launched January 2014.
Integration, transition and change		
• Planned synergies failing to achieve targets • Detrimental impact on growth and performance of business • Integration challenges resulting in increased operational risks • Mispricing of long term major contracts • Impairment of goodwill and intangible assets through underperformance or unforeseen developments in acquired businesses • Multi-stakeholder relationships • Mismanagement of priority deliverables and business as usual.	• Due diligence on broad categorisation of risk exposures • 'Black Hat' governance process • Group Board review and approval of acquisition and significant bids • Commercial and contractual terms closely reviewed to ensure clarity • Early adoption of MOB & risk management processes • Emerging risk review and appropriate escalation • Integration and transition process • Strong financial controls operated by unified financial structure and system • Robust change gap analysis activities and remediation planning.	• Refreshed approach to business integration focusing on local management ownership with appropriate oversight.

Strong leadership and robust processes continued

Potential risks and impacts	Mitigation activities include	2014 developments
Financial exposure		
• Risk of financial loss or failure to operate within financial targets as a consequence of external or internal vulnerabilities • Adverse effect on business financial performance from, e.g. mispricing, performance issues, client dispute or changing market landscape • Adverse investor impact (share price).	• Strong financial controls operated by a unified financial structure and system • Monthly finances reviewed in MOB • Rigorous capital expenditure approval and monitoring controls • Robust procurement process to further strengthen expenditure controls • Business disposal.	• Group Internal Audit reviews of completeness of income across spread of businesses • Introduction of 'My Purchasing' process to strengthen procurement controls and link to invoicing.
Legal risk		
• Failure to comply with legislative, contractual, fiduciary, statutory and/or judicial requirements • Criminal liability.	• Commercial and contractual terms closely reviewed to ensure clarity • Contractual warranty • Monitoring and tracking of legislative requirements across all Capita jurisdictions • Proactive and reactive Group legal support.	• New Commercial Risk Awareness training launched for wider business leadership to enhance knowledge of key contracting process and commercial risk management.
Financial crime		
• Financial impact of fraud • Significant civil and criminal penalties in cases of bribery/corruption and subsequent potential prohibition from public sector contracts • Exposure to parties exploiting vulnerabilities through a variety of fraudulent or criminal acts • Failure in supervision or corrective actions associated with financial crime.	• Board led anti-corruption and anti-fraud culture; zero tolerance approach with robust disciplinary process • Formal risk assessment of vulnerabilities • Appropriate policies and procedures in place including a Group-wide whistleblowing policy • Comprehensive training of senior management across Capita • Fraud investigations team to investigate and prosecute cases, identify root causes and embed remedial work.	• Appointment of new Group Head of Financial Crime Prevention to better coordinate Group policies and standards • Enhanced policies and oversight of financial crime risks in Group to reflect growth of Capita into new sectors and jurisdictions • Refresher training undertaken for Board and senior management on bribery risks.
Regulatory risk		
• Non-compliance of our businesses with the requirements of regulated bodies in the UK or overseas • Regulatory, financial and contractual penalties • New regulatory requirements for emerging Capita businesses • Non-compliance with environmental regulations.	• Appropriate policies and processes • Monitoring by compliance teams in Group, Divisions and Business units and Internal Audit oversight • Supervisory teams • Rigorously applied environmental policy and process • Measure and manage carbon footprint exposure and achieve energy reduction • Reduction in paper use and increase in recycling.	• Introduction of consumer credit regulation by FCA managed across Group firms • Ongoing relationship with FCA maintained • New regulator for Group firms with the purchase of a Solicitors Regulatory Authority supervised firm • Further development of knowledge of our exposures to Ofcom, Ofgem regulatory regimes.
Brand and reputation		
• Internal or external activities and events affect Capita's brand or reputation • Failure to maintain client or market sector trust in the Capita brand • Threat of hostile or sustained media attention towards Capita businesses and activities or corporate actions • Adverse investor impact.	• Centralised proactive PR team • Incident support by internal PR team • Reactive PR strategy in association with business, clients and public sector subsidiary partnerships • Investor relations strategy to develop and maintain open relationships with investment community.	• Further strengthening of management control around key contracts such as the Recruitment Partnering Project to provide even greater line of sight for Board • Greater understanding across business of activities of central PR team • Re-launch of Capita values, emphasising service delivery excellence and fair treatment of customers • Increased recognition of potential brand and reputation risks through specific inclusion on the risk framework.

Case study

Acquisition of Crown Mortgage Management

Crown's specialist mortgage skillsets – in residential, equity release and small commercial mortgages – complement Capita's existing mortgage business specialisms, particularly large commercial mortgages.

These synergies ensured that Capita was able to integrate Crown's expertise easily into the existing Capita Mortgage Management business.

Since the deal was finalised in May, Crown has been successfully rebranded as Capita Mortgage Services and integrated into the Group. The business continues to grow across its core markets with existing and new clients, as well as developing new capability, resulting in several significant new contract wins at the end of 2014.

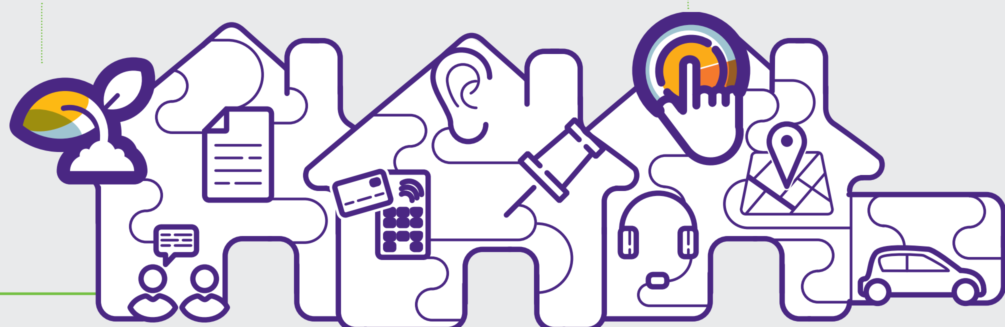
The integration has seen technological benefits across the business, with Phoebus – the software used by Crown to service their mortgage clients – being adopted by Capita's existing mortgage service centres. The expertise acquired through the integration of Crown into Capita Mortgage Services has ensured that this implementation is already delivering increased customer service levels and revenue.

2014 also saw the announcement that Capita was selected as the preferred bidder for the £325m contract to manage the Co-operative Bank's mortgage operations. This will be the largest mortgage servicing deal in a decade, with Capita managing more than 250,000 mortgage customers and £23bn of lending.

Crown's reputation and expertise in the mortgage processing market helped bolster our proposition to the Co-operative Bank, with our major sales team able to call on the knowledge and judgment of a number of key Crown employees. Our solution will draw on Capita's existing commercial debt-servicing capabilities and proficiency in large-scale customer service transformation, enhanced by industry expertise from Crown.

Strategic specialist acquisition to generate further organic growth in existing sectors

New entry into retail mortgage administration



Acquisition date
May 2014

Core business
Mortgage servicing

Employees
110

Value
£7.5m

Key customers
JP Morgan
RBS
Coventry Building Society
State Bank of India

Strong leadership and robust processes continued

In numbers:

14%

Revenue increased by 14% to £4,372m[2] in 2014

+11%

underlying operating profit[1] increased by 11% to £576m[2]

19.6p

The Board is recommending a final dividend of 19.6p

Strong financial discipline

Capita's focus upon creating value for shareholders is supported by strong financial controls and effective governance across the Group.

We monitor performance against KPIs, for which we have clear aims:

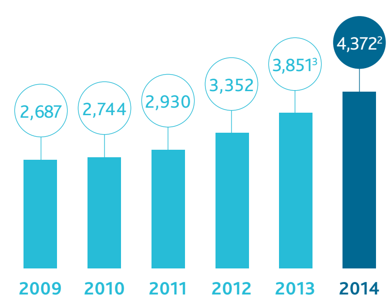
Underlying revenue

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

Underlying revenue[1] increased by 14% to £4,372m[2] in 2014 (2013: £3,851m[3]), including 9% organic growth and 5% from acquisitions completed in 2013 (2%) and 2014 (3%).

Underlying revenue (£m)[1]

5 year compound growth 10%



Operating profit and margin

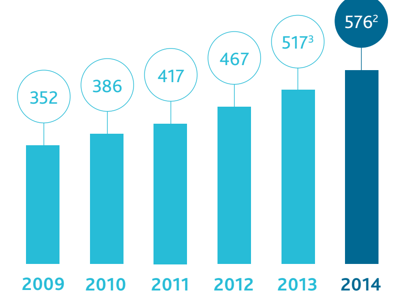
Aim: consistently maintain underlying operating margins.

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

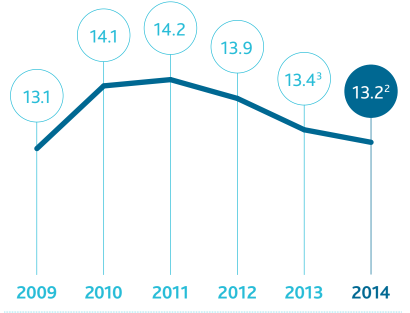
Underlying operating profit[1] increased by 11% to £576m[2] in 2014 (2013: £516.9m[3]). Our underlying operating margin[1] was 13.2%[2] (2013: 13.4%[3]), compared to our anticipated range of 12.5% – 13.5% which we expect to be able to maintain for the foreseeable future.

Underlying operating profit (£m)[1]

5 year compound growth 10%



Underlying operating margin (%)[1]



1 Excludes non-underlying items detailed in note 5 on page 123.

2 On an ongoing basis, 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers have not been restated on this basis.

3 2013 numbers exclude the partial sale of our Insurance Distribution and planned SIP business closure.

Earnings per share (EPS)

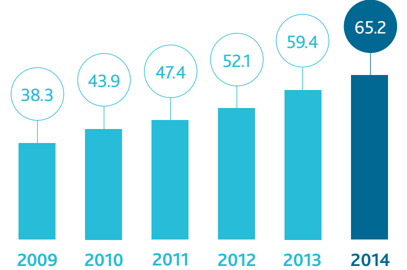
Aim: achieve long term, consistent growth in EPS.

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

Underlying earnings per share[1] increased by 10% to 65.2p[2] in 2014 (2013: 59.4p[3]). The Group's EPS has grown at a compound annual rate of 11% over the five years to 31 December 2014.

Underlying earnings per share (p)

5 year compound growth 11.2%



Reported profit before tax

Reported profit before tax, after the effect of non-underlying charges, increased by 36% to £292m (2013: £215m). Non-underlying charges included £25m in relation to business disposals and £218m in relation to those items detailed in notes 5 and 9 on pages 123 and 128, respectively.

Dividends

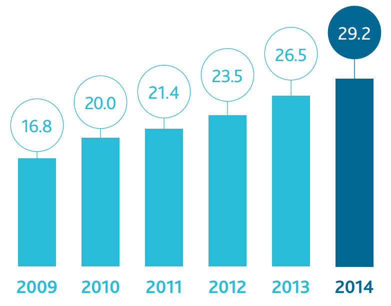
Aim: sustain a progressive dividend policy.

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

The Board is recommending a final dividend of 19.6p per ordinary share (2013: 17.8p), making a total of 29.2p for the year (2013: 26.5p), representing an increase of 10%. Dividend cover[1] is 2.2 times[2] for 2014. The final dividend will be payable on 28 May 2015 to shareholders on the register at the close of business on 17 April 2015. The Group's total dividend has grown at a compound annual rate of 12% over the five years to 31 December 2014.

Total dividend per share (p)

5 year compound growth 12%



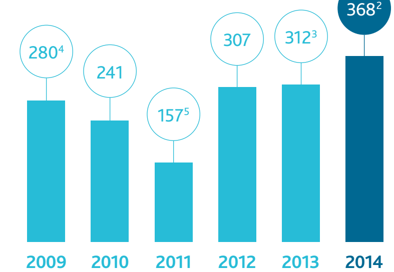
Cash flow

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

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

In 2014, £644m[2] (2013: £546m[3]) of underlying cash flow[1] was generated by operations, representing a cash conversion ratio of 112% (2013: 106%). Underlying free cash flow[1] (defined as operating cash flow less net capital expenditure, interest and taxation) was £368m[2] (2013: £312m[3]).

Free cash flow (m)[1]



1 Excludes non-underlying items detailed in note 5 on page 123.

2 On an ongoing basis, 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers have not been restated on this basis.

3 2013 numbers exclude the partial sale of our Insurance Distribution and planned SIP business closure.

4 Exceptional additional pension contribution of £40m.

5 Before one-off settlements of £17.9m for Arch cru and £10.0m pension contribution for transfer back to Cumbria County Council pension scheme.

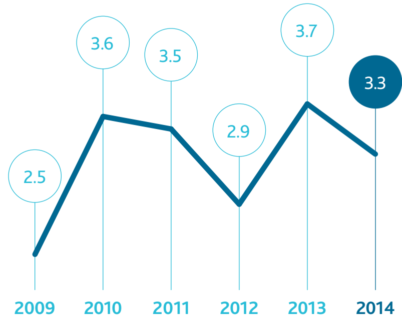
Strong leadership and robust processes continued

Capital expenditure
Aim: contain capex at or below 4% of revenue

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

In 2014, net capital expenditure was £146m, 3.3% of revenue (2013: £144m; 3.7%). There are currently no indications of significant capital expenditure requirements in our bid pipeline or forecasts that would cause us to exceed the 4% threshold.

Capex as % of turnover



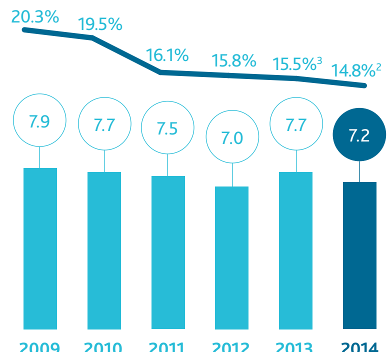
Gearing
Aim: maintain an efficient capital structure, with an appropriate level of gearing

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

As at 31 December 2014, we had £1,124m of private placement bond debt of which £97m matures in 2015 and the remainder gradually matures over the period up to 2021. In addition, we have £300m of bank debt, of which £200m matures in January 2016. In August 2014, we refinanced our £425m revolving credit facility with a new £600m 5+1+1 year revolving credit facility maturing in August 2019. This facility was unutilised at 31 December 2014.

Our annualised net debt to EBITDA ratio[1] was 2.1 times[2] (2013: 2.0 times[3]) and interest cover[1] was 14 times[2] (2013: 12 times[3]).

Net return on capital (%)[1]



Return on capital employed (ROCE)
Aim: deliver ROCE which is well in excess of our cost of capital

ROCE reflects how productively we deploy capital and in 2014 it was incorporated into senior managements' long term incentive schemes, which are now 25% based upon performance against ROCE targets.

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

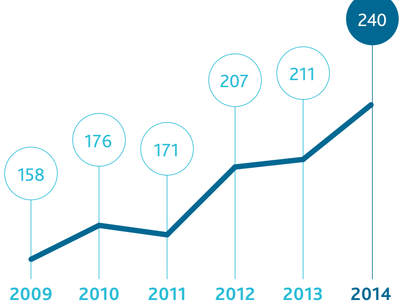
In the chart below, the post-tax weighted average cost of capital (WACC) indicates the return which could be expected from the capital invested in the business. It is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our WACC assuming a risk-free rate of 1.8%, a market risk premium of 8.3% and a beta of 0.8 times.

In 2014, our ROCE was 14.8%[2] (2013: 15.5%[3]), which compares to our estimated post-tax WACC of 7.2%.

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

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

Group economic profit (£)



Group economic profit

	2014	2013	2012	2011	2010	2009
Underlying operating profit (£m)[1]	**576[2]**	517[3]	467	417	386	352
Average capital (£m)	**3,180**	2,701	2,348	1,976	1,491	1,271
Tax (%)	**18.5**	19.0	20.5	23.5	24.5	26.8
Post-tax WACC (%)	**7.2**	7.7	7.0	7.5	7.7	7.9
Capital charge (£m)	**(229)**	(208)	(164)	(148)	(115)	(100)
Tax (£m)	**(107)**	(98)	(96)	(98)	(95)	(94)
Economic profit (£m)	**240**	211	207	171	176	158

1 Excludes non-underlying items detailed in note 5 on page 123.

2 On an ongoing basis, 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers have not been restated on this basis.

3 2013 numbers exclude the partial sale of our Insurance Distribution and planned SIP business closure.

Delivering shareholder value

Over the 10-year period to 31 December 2014, Capita has delivered £1.5bn (net of £274m equity raising in April 2012) to shareholders through dividends, share buybacks and special dividend. Capita's total shareholder return over the same period is 269% compared to 108% for the FTSE All-Share Index.

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

- Distribution to shareholders through progressive dividends: a key element in the creation of shareholder value is a progressive dividend policy.
- Funding acquisitions to add value: securing small- to medium-sized acquisitions is integral to Capita's future growth
- Share buybacks: opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. We did not complete any share buybacks in 2014; however, shareholders renewed the Group's authority to purchase up to 10% of issued share capital at our Annual General Meeting.

Taxation

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

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

Capita's contribution of £80.1m through UK corporation tax paid in 2014 (2013: £43.5m) is only part of our total tax contribution. Capita is a significant contributor to the UK Exchequer, paying and collecting a wide range of taxes on behalf of the UK Government. Each year, Capita contributes to The Hundred Group survey quantifying the total tax contribution of the FTSE 100 companies. During 2014, £205.2m (2013: £184.4m) of other UK taxes were borne by the Group including business rates, import duties, irrecoverable VAT, employers' NIC, and environmental taxes. In addition, Capita collected and remitted to the UK Government £423.8m (2013: £344.8m) of VAT and £377.0m (2013: £347.3m) of PAYE and employee NIC.

Performance summary

	2014	2013	2012	2011	2010	2009
Dividends per share						
Interim dividend (p)	**9.60**	8.70	7.90	7.20	6.60	5.60
Final dividend (p)	**19.60**	17.80	15.60	14.20	13.40	11.20
Total ordinary dividend (p)	**29.20**	26.50	23.50	21.40	20.00	16.80
Total dividend (p)	**29.20**	26.50	23.50	21.40	20.00	16.80
Dividend cover	**2.23x**	2.24x	2.26x	2.27x	2.25x	2.31x
Totals						
Interim dividend (£m)	**63**	57	51	44	40	34
Final dividend (£m)	**130**	117	102	87	81	69
Total ordinary dividend (£m)	**193**	174	153	131	121	103
Share buybacks						
% of share capital authorised to repurchase	**10%**	10%	10%	10%	10%	10%
% of share capital repurchased	**–%**	–%	–%	–%	3%	–%
Issued share capital at year end (£m)	**659**	656	652	608	606	617
No. of shares repurchased (m)	**–**	–	–	–	15	–
Average price (p)	**–**	–	–	–	751	–
Total cost (£m)	**–**	–	–	–	116	–
Shareholder returns						
Total return to shareholders (£m)	**193**	174	153	131	237	103

Strong leadership and robust processes continued

Our wider corporate responsibility

We are committed to managing the business in a way which benefits all Capita's stakeholders – our shareholders, clients, employees, suppliers and the communities in which we work. We take a long term approach to developing our proposition and client relationships, ensuring that we grow in a stable and sustainable manner. This helps us to contribute positively to society and create financial value through:

- attracting and retaining a skilled and motivated workforce
- managing risk and reducing costs across our business and supply chain
- building our competitive advantage
- encouraging innovation and identifying opportunities to grow and expand into new markets
- maintaining and enhancing our brand reputation
- creating value for clients by helping them deliver their own Corporate Responsibility (CR) agenda.

CR strategy and priorities

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

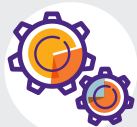
CR priorities

Employees

Engaging and supporting our people.
See page 30

Communities

Driving positive change and addressing local need directly, or through collaboration with clients and partners.
See page 50



Suppliers

Building successful supplier relationships and a responsible supply chain.
See page 34

Environment

Running a resource efficient business and minimising our impacts.
See page 51

To reflect the central role that our people and suppliers play in our business model, enabling us to secure and maintain long term client relationships, we have included details around managing our workforce and supply chain on pages 30 to 34. We support this through our wider approach to corporate responsibility including our community programmes and environmental management which form a key part of our business model and client propositions.

We continually seek to drive improvement and we measure and report annually on our progress relating to each priority. This includes a number of non-financial KPIs around the areas with the greatest impacts, see page 11 for details and we also monitor a range of detailed performance metrics, see page 53 for a full summary of all our CR measures.

Creating better tomorrows

Investing in our local communities and client partnerships: We are committed to making a positive impact in the communities where we are working with clients to deliver services and administration. We do this through our daily business operations, supporting clients in transforming their business models and enabling them to achieve a higher level of efficiency and customer satisfaction. See further details on how we support our clients on page 21.

In 2014, we launched a new external microsite which showcases innovative ideas and how they are being applied in practical situations and delivering valuable results. The aim of the site is to facilitate knowledge sharing and expertise between thought leaders and current and new clients to support further innovation.

We also endeavour to go beyond our contractual obligations and demonstrate to our clients, customers and employees that we are a responsible business that seeks to have a lasting positive impact. Through our community investment initiatives we look to tackle pressing social and economic issues on both a national and local scale and engage in a wide range of initiatives at both a Group and business level.

Community initiatives: We aim to support charities, SMEs and voluntary organisations working in areas which align with the issues present in many of our key markets. In 2014, we focused on the following areas and we will be reviewing these in 2015 to ensure that we continue to align with the Group's business objectives:

- employability support for young people, including those in care
- inclusion for people with health issues
- resettlement for ex-service personnel
- rehabilitation of ex-offenders.

One of the key developments in 2014 was the launch of our new corporate charity partnership with The Prince's Trust, which is selected by our employees. The Trust supports disadvantaged young people, including those in care, and with youth unemployment currently standing at 16.9%[1] in the UK, this is a pressing social issue. Through the partnership, we are able to leverage our expertise and workforce to support The Trust's commitment to skills and training and we have identified a whole range of areas where we can add value including employee volunteering, work experience days and consultancy. Fundraising is also an important aspect of the partnership and since July 2014, we have already raised over £140,000 through a range of employee engagement activities, matched funding and sponsorship. Our partnership with Cancer Research came to an end in July 2014, raising a total of £319,000 over 18 months.

KPI **Measuring our community impact:** To ensure we are achieving our aims, and having a positive impact in the community, we endeavour to measure and report our contribution, looking not just at the inputs and outputs but also the overall community and business impacts of our activities. We do this using London Benchmarking Group methodology, taking account of cash, time given and in-kind donations. We estimate that our total community investment was £2.2m based on approximately 40% of the business. In 2014, we introduced a number of measures to improve our visibility of activity occurring across the Group and we will continue to work on this in 2015 in order to improve our data capture.

Running a resource efficient business

Climate change and resource scarcity are two of the biggest issues facing society and we are committed to playing our part in tackling these challenges, taking a pro-active approach to good environmental management and trying to minimise both our direct and indirect impacts. We monitor and assess our environmental impacts and continue to focus our efforts on: minimising energy use at our sites, reducing business travel where possible by encouraging telephone and video conferencing, managing our resource use and waste management. We also seek to minimise any risks to our own operations, including having business continuity plans in place, for example, to mitigate if there are extreme weather conditions which may prevent our employees getting to work to deliver for our clients. Our environmental policy sets out our approach to managing and reducing our impacts on the environment.

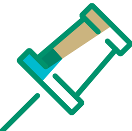
Our environmental management system is based on ISO 14001 and some of our businesses have gained external accreditation, where it is required by their marketplace, for example Capita Property and Infrastructure. A number of our clients also require us to gain accreditation for their particular operations and in 2014 two of our main business centres (our customer management site in Dearne Valley and our largest Indian site in Mumbai) achieved both ISO 14001 and OHSAS 18001 certifications. These accreditations are a formal recognition that we are meeting internationally accepted environmental and occupational health and safety management standards. At the end of 2014, approximately 20% of our employees were based at ISO 14001 accredited sites, almost double the previous year (2013: 11%).

KPI **Carbon footprint:** In 2014, our carbon emissions were 139,672 tonnes CO_2eq (scopes 1, 2 and 3), representing a year-on-year increase of 27% (2013: 110,341 tonnes CO_2eq). This was related to a number of factors, mainly; the growth of the business through acquisitions and contract wins; increased travel requirements as a result of our growing international network of business centres; increased number of field-based operations relating to clients such as the Home Office and Ministry of Justice; a significant increase in 24/7 call centre operations to ensure that we can maintain a flexible service for our clients and their customers.

We measure and report our carbon emissions annually and in 2010 we set ourselves a target to reduce our carbon intensity (scopes 1 and 2) by 4.5% a year. This year, our carbon emissions for scopes 1 and 2 decreased to 84,103 (2013: 87,512) with our carbon intensity decreasing from 22.7 to 19.2, reflecting the work we are doing to reduce our footprint. This will continue into 2015 with the introduction of the Energy Savings Opportunity Scheme (ESOS) which is a mandatory energy assessment for organisations that meet qualification criteria set by the EU. The scheme will cover energy used in our buildings and transport and identify cost-effective energy saving measures. Our environment team is reviewing resources, reporting processes and data capture to ensure that we meet these requirements.

1 House of Commons, youth unemployment statistics 2015.

Strong leadership and robust processes continued



Energy use and business travel:

Reducing energy use in our offices is a key priority for the Group. Since 2006, we've had a programme in place to identify opportunities for improvements and we continue to review performance across our sites. We continue to install smart metering at sites that come under the UK Government's carbon reduction regulations and purchase renewable energy across all operations and data centres managed by Capita.

We've introduced green travel plans at a number of sites and actively encourage the use of video and teleconferencing to reduce unnecessary business travel. As a result, in 2014 we saw a further increase in teleconferences with 456,707 calls made, up 20% (2013: 379,082). Where travel is unavoidable, we encourage the use of public transport and intelligent travel planning. We've capped company car CO_2 emissions at a maximum of 130g/km and in 2014 achieved an average level of 106g/km across the fleet. We also promote the UK Government's Cycle to Work scheme as part of our employee benefits package.

Waste management and resource use:

We strive to use our resources efficiently and avoid generating waste, for example, by reducing our paper usage through the increased use of electronic document management systems. We have set ourselves a target of recycling 80% of all our waste at our 20 largest waste producing sites by 2015 and we are working with our facilities provider to collect accurate data on our waste at these sites. In 2014, the average volume of waste recycled at these sites was 66% (2013: 43%).

We have a number of Group-wide recycling schemes in place for paper, consumables such as printer cartridges, mobile phones and redundant IT equipment. In 2014, we maintained high levels of recycling, with 19,612 pieces of IT equipment recycled over the course of the year. We also work with our suppliers to source more environmentally friendly products and review the logistics of how goods are delivered to our offices. Although our water usage across our sites is not significant, we endeavour to conserve this resource, for example, where we have direct control of a site, or when we are refurbishing one of our offices, we install low flush toilets, taps and urinal controls.

CR leadership

Our CR programme is overseen by the Group Board. The Group Finance Director has overall responsibility for our strategy, with each Executive Director looking after one or more priority impact areas, see page 74 for more details. Following Gordon Hurst's retirement from the Board at the end of February 2015, Nick Greatorex will assume responsibility for our CR approach as Group Finance Director, from 1 March 2015.

The CR Steering Group, which includes functional heads from key areas, is responsible for implementing the Group's strategy and also provides guidance to our business units and communicates progress to the Board. The Steering Group meets during the year to review and challenge the Group's approach, impact areas and risks and opportunities. It is supported by a central CR team who ensure that our approach is communicated across Capita and we have a number of employee networks and engagement initiatives which help us to embed CR programmes across the Group. The monthly reporting MOB process also provides a forum through which any CR opportunities and challenges can be escalated and addressed.

In 2014, the main priorities of the Steering Group were the introduction of a formal human rights policy, ensuring that we have the right level of information relating to CR for our clients and bids, and that we are communicating this effectively given the size of Group and high level of activity.

Policies

We have a number of Capita-wide policies to protect our employees, including those covering equality and diversity, health and safety, our whistleblowing policy, 'speak up', and our code of ethical conduct. Our joint COOs have Board responsibility for these policies and ensure that they are adopted across the business.

2015 priorities

- Improve data capture of community involvement and charitable activity from across the Group.
- Deliver a full calendar of activity with The Prince's Trust and increase employee engagement with our community programmes.
- Continue to focus on reducing our energy/carbon emissions.
- Continue working with our facilities provider to achieve our target of recycling 80% of waste across our 20 most waste-producing sites.
- Support further ISO 14001 accreditations across the Group, onshore, nearshore and offshore.
- Review UK and international travel to ensure alternative communications are used where appropriate.

View all our corporate responsibility (CR) policies online: **www.capita.co.uk/responsibility**

Summary of corporate responsibility performance measures

	2014	2013
People		
Employee retention:		
KPI Manager retention rate (divisional directors and senior management team)	**97%**	98%
KPI Overall employee retention rate	**78%**	82%
Health and safety (accident frequency rate per 1,000 employees RIDDOR)	**1.49**	1.42
Employee diversity:		
Male/female split	**34,744 male (51%)/ 33,162 female (49%)**	32,087 male (51%)/ 30,648 female (49%)
Male/female split for senior management (divisional directors and senior management teams)	**73 male (80%)/ 18 female (20%)**	84 male (86%)/ 14 female (14%)
Male/female split for Board of Directors	**5 male (56%)/ 4 female (44%)**	6 male (67%)/ 3 female (33%)
Percentage of employees from ethnic minority groups[1]	**23%**	22%
Percentage of employees working part-time out of total workforce	**16%**	18%
Employees by location:		
Onshore	**86%**	88.5%
Offshore	**10%**	9.0%
Nearshore	**4%**	2.5%
Suppliers		
KPI Annually audit all strategic suppliers	**100%**	100%
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
Environment		
KPI Total carbon footprint (scopes one, two and three)	**139,672 tonnes CO_2eq**	110,341 tonnes CO_2eq
Carbon intensity for whole Group[2]	**19.2**	28.7
Conference calls made	**456,707**	379,082
Undertake environmental site audits twice a year	**100% audits completed**	100% audits completed
Community		
KPI Total community investment (using London Benchmarking Group methodology)	**£2.2m**	£1.8m
Total corporate donations including support for our charity partner and matched funding scheme, other community initiatives and disaster appeals	**£351k**	£297k

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

Running London's Congestion Charge and Low Emission Zone

In January 2014, Transport for London (TfL) awarded Capita the contract to run London's Congestion Charge and the Low Emission Zone (LEZ) business operations, including taking responsibility for the processing of traffic enforcement notices across the entire TfL road network. The five-year contract is worth over £145m in revenue.

Capita held the initial contract for the design, implementation and operation of the Congestion Charge when it was introduced in London in February 2003, and successfully ran the service until 2009.

The experience and expertise we have across the Group, together with implementing and managing the congestion charge scheme when it was first launched, means that we are well equipped to deliver for TfL.

Dawn Marriott-Sims
Joint Chief Operating Officer

Since the original contract, TfL has modernised its strategy and procurement process and its aim with the new combined Congestion Charge, LEZ and enforcement tender was to find a supplier who could deliver a flexible, scalable solution promoting common services across the organisation – with the potential to grow as required.

The tender was issued in two lots, the first for the Congestion Charge and LEZ business operation and the second for enforcement processing. It also included substantial headroom for TfL to potentially commission a much wider set of related services across the entire business; with an upper value of c.£750m over five years.

Capita bid for both lots, and developed a new model to transform the services, building on our existing expertise and facilities whilst allowing for maximum flexibility. Significant channel shift and increased mobile engagement are key elements of the new system, helping to drive a transformation in customer experience.

Most importantly, the scheme has been designed to allow for expansion and innovation – an open-ended service design that will ensure Capita can match TfL's expanding requirements as they emerge. The headroom in the contract will allow for TfL to commission wider services, and so Capita's system is being built with this in mind.

System implementation and transfer has been running smoothly and in September 2014, nine months after the original contract award, TfL announced that it had made the decision to transfer control of the Congestion Charge and Low Emission Zone to Capita over a year earlier than the original planned hand-over date of November 2015.

These services are currently being delivered under the existing model as Capita continues to implement its new system. Until the original handover date in November 2015, the previous contractors IBM will continue to supply IT infrastructure services to Capita, supporting these operations.

Redesigning a key piece of London's transport infrastructure from the ground up

Contract won
January 2014

Value
£145m + £30m over five years

Core business
Running London's Congestion Charge and the Low Emission Zone business operations, as well as having responsibility for the processing of traffic enforcement notices across the entire Transport for London (TfL) road network

Transformative approach will drive customer channel-shift and mobile engagement

Builds on existing Capita expertise from a number of key businesses

Contract allows for the commissioning of a much wider set of potential services across the entirety of TfL

Strong leadership and robust processes continued

Flexible operating structure

We have consistently maintained a straightforward and efficient divisional structure that supports Capita's major sales effort, our large scale customer management and business process management contracts and our specialist businesses and service lines.

Supporting growth through our flexible operating structure

We have consistently maintained a straightforward and efficient divisional structure that supports Capita's major sales effort, our large scale customer management and business process management contracts and our specialist businesses and service lines. This structure supports our business model of controlled, profitable growth and provides ready access to the Group's wider specialist skills and expertise, economies of scale and centralised procurement. It enables us to balance investment in internal innovation, establish and grow strong leadership and management from within and deploy and harness the best of technology, innovation and business processes.

Each division is led by a divisional executive director, all of whom are members of the Executive Board along with the Group's heads of corporate development and communications, strategic business development and acquisitions. The Executive Board meets monthly to share knowledge, experience and to discuss opportunities and challenges which can be addressed by cross-divisional support. In recognition of the central role Group business development and reputation management plays in our growth, four members of the Group corporate and business development team have been appointed to the Executive Board.

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

Divisional performance in 2014

The majority of our divisions performed well in 2014, with strong growth in Workplace Services and Justice and Secure Services, supported by new contracts including Ministry of Justice electronic monitoring and AXELOS. New management continued to deliver improvements in the profitability of the IT Services and Property & Infrastructure divisions, helped by the macroeconomic backdrop. These positives were partially offset by the end of the Disclosure and Barring contract in March and the continued impact of the slower ramp up of the DWP Personal Independence Payment (PIP) assessments.

Divisional priorities and focus in 2015

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

2015 developments

As we consistently grow our skills and capabilities in support of our changing client needs, and as our business continues to grow strongly, expanding both its service offering, market and geographical territory reach, we will make adjustments to our divisional structure to ensure our operations continue to be managed in an optimum manner.

The range of sectors in which Capita now has a presence is expanding and will continue to do so in the months and years ahead. Our sales solutions are increasingly harnessing new techniques such as leading-edge data analytics, behavioural science, digital and social interactions and innovative products and services, enabling us to deliver even greater value to our clients and their customers. As we work to maximise our market opportunities in 2015, we will make a number of small structural changes to align the organisation to our internal capabilities, further strengthen our sales structure and make it as easy as possible for clients to engage with us.

2014 operating businesses divisional structure

Group Board: 1 Non-Executive Chairman, 3 Non-Executive Directors and 5 Executive Directors

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

Customer Management & International
- Customer Management
- Telefonica (O2)
- Euristix
- Debt & Legal Services
- India/ Middle East
- Poland
- South Africa
- Germany

See page 58

Asset Services
- Shareholder Solutions
- Corporate & Private Client Solutions
- Fund Solutions
- Debt & Banking Solutions
- Treasury Solutions

See page 59

Insurance & Benefits Services
- Life and Pensions BPO
- Specialist Insurance
- Corporate Insurance
- Financial Services Remediation
- Employee Benefits

See page 60

Professional Services
- Software Services
- Local Government
- Entrust
- Document Information Services/ Financial Software
- Central Government Services
- Consulting

See page 61

Property & Infrastructure
- DCC Smart Metering
- Health Asset Management
- Central Government
- Infrastructure & Real Estate
- Design & Management, Housing
- Local Government Regions
- DIO

See page 62

IT Services
- Applications, Cloud & Enterprise Services
- End User Services
- Managed IT Solutions
- Technology Solutions
- Public Sector & Health
- SWAN
- Updata

See page 63

Health & Wellbeing
- Health Advisory
- DWP PIP
- CMR & Life (MDG)
- Tascor Medical Services
- International Health
- Organisational Health
- Healthcare Analytics
- Healthcare Decisions

See page 64

Workplace Services
- Specialist Recruitment
- Managed Services
- Learning Services
- HR Services
- Screening
- Travel & Events
- Evolvi Rail Systems
- Recruiting Partnering Project (RPP)
- AXELOS JV

See page 65

Justice & Secure Services
- Electronic Monitoring
- Products
- Tascor Services
- G2G3
- IT Professional Services & Translation and Interpreting
- ICT Managed Services, TFL & Parking Services
- Fire Service College
- AMT-SYBEX
- SS1 – EMS

See page 66

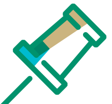
Divisions overseen by Joint COO Vic Gysin (Customer Management & International, Asset Services, Insurance & Benefits Services, Professional Services)

Divisions overseen by Joint COO Dawn Marriott-Sims (Property & Infrastructure, IT Services, Health & Wellbeing, Workplace Services, Justice & Secure Services)

Strong leadership and robust processes continued

Customer Management & International

This division contains our customer management business, including Telefonica (O2), debt legal services and our offshore contact centres.



2014 summary:

	2014	2013
Revenue	£662.9m	£505.7m
Underlying operating profit	£76.0m	£62.9m
Underlying operating margin	11.5%	12.4%
Capex	£12.0m	£13.8m

Business development highlights:

- Maintained strong sales momentum securing significant long term customer management deals in the retail, utilities and technology and media sectors, notably with npower, John Lewis Partnership and Samsung.
- Significant developments in two geographic markets; entered the German market with the acquisition of tricontes, expanded our reach in Ireland with the acquisition of outsourcing provider SouthWestern.

Operational developments & challenges:

- Strong performance delivered across existing client operations and transformation programmes. Capita O2 partnership is performing well, in line with our and Telefonica UK's expectations.
- Sustained growth in our international capability. Poland and South Africa have more than doubled in size in FTE terms during 2014. India's growth in digital back-office (webchat/email customer management and web operations) has more than offset efficiencies delivered in mature insurance back-office processing.
- Further strengthened our debt management capability. Investing in stronger management and better technology across both Akinika and our enforcement businesses and the acquisition of Stirling Park adds enforcement capability in Scotland.
- The acquisition of Optima secured regulatory approval in March 2014, delivering specialist legal services to support growth in debt management, mortgage BPO and the wider financial services sector.
- The business grew strongly in the year and therefore there was a slight pressure on margins as this work was in its initial implementation phase.
- Focused on driving out operational cost and creating more efficient operations systems and platforms, across all our contracts.

2015 priorities

Further accelerate sales momentum, particularly in strategic sectors: utilities, technology, media and retail:

- deepen existing client relationships, by shifting current business to longer term deals with additional and more valued propositions
- secure new clients in our target sectors.

Further strengthen our customer management transformation proposition by acquiring and partnering for new capability:

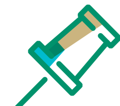
- trading capability to support clients' operations to acquire new end-customers and retain existing customers
- digital/technology capability to strengthen multichannel coverage
- analytics to drive insight to improve both efficiency and effectiveness of client operations.

Underpin growth aspirations with strong delivery.

Continue our internal investment in underlying customer management infrastructure, management and technology.

Asset Services

Asset services combines all our shareholder solutions, fund administration, mortgage and banking solutions, treasury and specialist financial services to corporate and private clients.



2014 summary:

	2014	2013
Revenue	£262.7m	£246.6m
Underlying operating profit	£63.6m	£64.0m
Underlying operating margin	24.2%	26.0%
Capex	£20.9m	£18.6m

Business development highlights:

- Secured a number of significant contracts including preferred bidder with Co-operative Bank for residential mortgage servicing, a third servicing contract with NAMA, and new fund solutions contracts with Prudential and CF Woodford.
- Strong focus on cross divisional sales increased overall new revenue streams including cross sales/referrals to existing clients.
- Acted on 76 new IPOs, representing 53% of new issues, including a range of services for the second largest retail IPO, SAGA.
- Increased our financial services offering with the acquisitions of Throgmorton UK and Crown Mortgage Management, the latter of which provided our entry point into residential mortgage servicing. Both acquisitions are progressing well.

Operational developments & challenges:

- Created new residential mortgage servicing proposition and portfolio transfers, addressing ongoing low activity in new lending and the commercial mortgage-backed security (CMBS) new issuance market.
- New services launched during the year included: an expansion into international share plans; a 'growth companies' initiative targeted at organisations that have the potential to list in the future, where Capita can provide a range of services; and a custom 'self build' initiative for local authorities to help unlock real estate development.
- Continued our investment in client platforms to support future growth, including further roll out of an IT platform in our shareholder solutions and an upgrade of our local authority treasury portal and a strategic alliance with a leading treasury platform provider.
- The division invested in developing the infrastructure to support future growth and increased its compliance functions in line with increasing regulatory requirements.
- Maintained our rating from Fitch and Standard & Poor's as highest rated servicer in Europe.

2015 priorities

Continue to assist clients to respond to the challenges of the heightened regulatory environment facing fund managers.

Continued emphasis on cross selling division-wide services to our expanded client base following growth in 2014.

Taking further strides in the residential mortgage marketplace, including a focus on building societies.

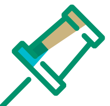
Further development of our overseas operations and presence to take advantage of the widening sales network in feeding opportunities into European businesses.

Fund solutions to expand its pan-European fund hosting and professional support services and will invest into and develop its Transfer Agency proposition.

Strong leadership and robust processes continued

Insurance & Benefit Services

Comprises our employee benefits, life & pensions and specialist and corporate insurance businesses.



2014 summary:

	2014	2013
Revenue	£640.4m	£667.0m
Underlying operating profit	£55.5m	£60.6m
Underlying operating margin	8.7%	9.1%
Capex	£37.6m	£28.8m

Business development highlights:

- Strong new business growth in our employee benefits and remediation services businesses. Employee benefits secured over 40 new clients.
- Presence in public sector pensions administration strengthened with extension of Teachers' Pension Scheme contract.
- Our online 'Orbit' employee benefits portal was further developed with further integration and single sign-on functionality with other Capita businesses.
- Innovative new tracing and verification service launched to help financial firms and trustees reunite unclaimed assets and their owners.
- Launch of Defined Contribution proposition launched and changes in progress to support clients in anticipation of implementation of "Freedom and Choices" Pension Budget Reforms.
- New clients signed up to our new underwriting services platform in Singapore.

Operational developments & challenges:

- Working with the Pensions Regulator, we have helped ensure that more than five million workers have been automatically enrolled into a pension by their employer.
- Successfully extended the reach of our regulatory service offerings to a number of existing life & pensions clients, including specialist training, operational frameworks, complaint handling, actuarial services, project services, underwriting and claims.
- Completed a number of major IT platform migrations and transformations, improving service and cost levels for our clients.
- Working collaboratively with our clients to provide innovative solutions that help them address ongoing regulatory change and pension reforms.
- Winner of Pensions Consultancy of the Year 2014, Pensions Age Awards.
- A number of life & pensions contracts continued to step down in size as planned due to completion of initial transformation and reduction in policy numbers.
- We have continued to smoothly wind down and transfer the SIP administration business.

2015 priorities

Grow and add value to our existing client partnerships and invest in technology and innovations to enhance and improve the customer and client experience.

Extend our presence in the pension and employee benefits market via ongoing service developments and consultancy innovations, further investment in the Orbit benefits platform and Hartlink administration system, and maximise cross-selling opportunities.

Deliver propositions into newly regulated industry sectors and continue to help our customers manage the impact of regulatory and policy change.

Focus on and grow our position in the claims and international insurance markets.

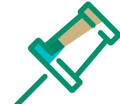
Integrate new medical businesses into our specialist insurance business and continue to deliver niche products and services to these industries.

Extend the reach of our remediation services into new markets.

Continue our ICT platform and property consolidation programmes, with further IT transformation being delivered for our clients.

Professional Services

This division comprises our local government and schools software, local government services and our strategic partnerships, central government services, document & information solutions and Entrust.



2014 summary:

	2014	2013
Revenue	£573.6m	£556.5m
Underlying operating profit	£132.3m	£128.5m
Underlying operating margin	23.1%	23.1%
Capex	£8.2m	£8.3m

Business development highlights:

- Continue to extend our local government reach with contract wins such as Wycombe District Council, and extensions with Brent and Cherwell Councils.
- Successfully rebid the Learner Support Programme funds disbursement contract (now renamed Student Bursary Support Services) for the Education Funding Authority, to commence in May 2015. Proposition included an innovative technology solution (involving Capita technology specialists) to drive the service online to simplify and accelerate the application process.
- Won the contract to provide a value-added document management service to Sellafield nuclear decommissioning authority, the initial stage of a strategic move to increase our presence in the UK nuclear industry.
- Won the competitive bid process to operate the Green Deal Home Improvement Fund disbursement service for DECC.
- Significant wins in the Scottish further education market mean we are now the leading provider of student record software in the FE sector in Scotland.

Operational developments & challenges:

- Continue to invest and innovate to maintain our market leading schools, children's and family software positions – launched SIMS 8, FMS 8, social care developments and cloud-based solutions.
- Austerity measures continue to impact our local authority and college markets, but we are seeing continued growth in channel shift to digital solutions and mobile access to our back office suite.
- Entrust continues to perform ahead of plan, with revenue growth achieved through contract wins and cost savings.
- Designed the new Irish postcode system, Eircode, and created the 2.2m individual postcodes required with a view to the system being launched in 2015. Successfully delivered the encoding part of the project on time and within budget, which meant analysing, cleansing and encoding over 82m records.
- Secured the endorsement of Constructionline as a delivery mechanism for PAS91 and SSIP from nine main contractors in the construction industry, helping to drive record new Constructionline sales in the year.
- Proactively drove further efficiency improvements within the Gas Safe Register through better organisation and communication.
- Delivery of new HR, Finance and CRM systems to London Borough of Barnet within nine months of service commencement. Relocation of the client's infrastructure to a new data centre offering improvement performance and stability to critical systems.
- Opened new state-of-the-art print facility in Mansfield on time and below budget. Resulted in transfer of existing local government business from competitor. Technology adoption will enable the consolidation of our print facilities during 2015.

2015 priorities

Key focus on new Mid Ticket sales team established to ensure improved focus and win rate on all deals above £10m and below Big Ticket levels.

Delivering Local Government Partnerships sales growth from a more integrated service base.

Continue to support our existing and new central Government clients in delivering more for less including use of technology, process automation, innovation and flexible delivery.

Develop and innovate new models for delivery which help to meet the challenges presenting our central Government client base.

Within children's services focus on retaining customers and extending our presence through high quality products and support and develop new solutions (modules and services) to meet emerging customer requirements; invest to maintain and enhance our market position through the development of SIMS8, FMS8 and social care.

Invest further to broaden the software services product offering across a range of our product sets, allowing us to offer both additional solutions to existing customers and also extend our product offering into new markets.

We have made a significant investment in the new Mansfield print facility and are now well positioned to bid for larger contracts in this market. Focus on securing a position as a major provider in the document outsourcing market.

Clients are looking to integrate their inbound and outbound operations and considering the benefits of outsourcing, leading to a significant growth in the document management outsourcing market.

Strong leadership and robust processes continued

Property & Infrastructure

Property & Infrastructure houses all our property consultancy, design and infrastructure practices and our local government regional partnerships.

2014 summary:

	2014	2013
Revenue	£328.8m	£277.3m
Underlying operating profit	£26.9m	£15.7m
Underlying operating margin	8.2%	5.7%
Capex	£3.2m	£1.5m

Business development highlights:

- Secured major sales wins, including a 10-year strategic business partnership with the Defence Infrastructure Organisation (DIO).
- Entered new growth markets through the acquisition of Projen, providing a wide range of design, engineering and management services in the pharmaceutical, oil and gas, manufacturing and bio energy markets.
- Launched a new Capita Health Partners offering – integrating the NHS and wider healthcare expertise of three leading Capita businesses to design and deliver innovative and enabling services for healthcare providers and commissioners.
- Secured a unique, revolutionary strategic partnership deal with leading housing service provider Genesis Housing Association to provide all of its professional and strategic consultancy support.
- Appointed by the Mayor of London as the support team for the Greater London Authority's retrofitting programme to make over 175,000 London homes across the capital more energy efficient, saving 93,000 tonnes of CO_2.

Operational developments & challenges:

- After several years of challenging trading conditions, 2014 has been a positive year for our Property & Infrastructure business. Many core markets have returned to some measure of growth, and organisational changes implemented during 2013 have brought stability and a stronger commercial focus to our business.
- Returned to a top five ranking amongst UK multidisciplinary consultancies (Top 250 Consultants File, Building, October 2014).
- Capita's Property & Infrastructure business has become the first company in the world to be accredited to deliver the British Safety Council's Five Star Occupational Health and Safety Audit.
- Implemented a sales transformation programme to optimise the performance of sales, marketing and account management operations.
- Made senior management appointments to strengthen our health operations and corporate development function.
- We now have the structure and people in place to deliver a new three-year strategy for growth.

2015 priorities

Recruiting and retaining the best people in an improving market to deliver on new three-year plan as the market growth and skills shortage remain.

Positioning Capita as a transformational partner across all its sectors with the ability to deliver long term value for customers and generating increasing revenues.

Deliver strong growth in all our core market sectors and open up newer markets such as nuclear and utilities.

Remain responsive and flexible to any new priorities and decisions on current areas of planned infrastructure investment and strategy that a new Government may introduce.

IT Services

This division comprises our data, applications and enterprise services, IT managed services, IT solutions as well as a number of large public sector IT contracts.

2014 summary:

	2014	2013
Revenue	£483.7m	£457.6m
Underlying operating profit	£38.0m	£25.0m
Underlying operating margin	7.9%	5.5%
Capex	£34.5m	£22.9m

Business development highlights:

- Won the Scottish Wide Area Network (SWAN) contract to deliver network connectivity and other ICT services across the entire public sector in Scotland.
- Extended and expanded our strategic relationship with BAE Systems delivering critical IT services and projects to the Submarines Division.
- Acquired Updata, the leading provider of network managed services primarily focused on the public sector.
- Continued the growth in our Technology Solutions business by securing new clients across a wide range of industry sectors and broadened our offerings in IT security, through the acquisitions of NTS, and, in storage and analytics, by acquiring Solid State Solutions (S3).
- Successfully launched a range of cloud and platform services including Capita Private Cloud, Capita Productivity Hub and Connectivity plus to provide secure UK hosted utility ICT services all of which have had successful client take-up.

Operational developments & challenges:

- Won or extended existing multi-year contracts with a large number of clients in the public and private sector in all lines of business.
- Capita Managed IT Solutions is providing schools with software to help pupils learn computer programming skills. The software, Computer Programming Environment (CPE) will give students and teachers access to a range of programming tools, helping schools introduce computational thinking, coding and algorithms into the curriculum.
- Commenced implementation of our SWAN contract, including connecting 1,500 sites and construction of a core network and operations centre.
- Continued to successfully drive material improvement in the quality of service performance and on-time project delivery.

2015 priorities

Capitalise on the breadth of our industry leading capabilities and offerings by driving further organic growth in an improving market for ICT services.

Relentlessly pursue further improvements in service excellence.

Maintain control and discipline to continue to drive operating margins upwards in line with the improvements achieved in 2014.

Extend our world class platform offerings built on top of our cloud services.

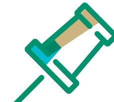
Maximise our position in network integration and services achieved through contract awards in 2014 and the acquisition of Updata.

Continue to look for acquisitions and investment opportunities that can extend our offerings or enhance our capabilities.

Strong leadership and robust processes continued

Health & Wellbeing

This division is made up of all our health businesses servicing clients across the public and private sectors. A change of structure in 2015 will more closely align our offering to our customer base, recognising the diversity of businesses in this division.



2014 summary:

	2014	2013
Revenue	£158.8m	£162.8m
Underlying operating profit	£15.3m	£21.8m
Underlying operating margin	9.6%	13.4%
Capex	£1.7m	£26.8m

Business development highlights:

- The Health Advisory business delivered a highly successful transformation programme with our strategic partner Sussex Community Trust.
- Continued the roll out of Learning4Health, a blended learning programme for NHS staff across the South West of England with over 85,000 registered learners accessing 3,500 online learning sessions structured around care pathways. The programme is reducing education costs and supporting the delivery of frontline care.
- Energy Medical services retained contracts with Chevron, and Petrofac. A consolidated contract was agreed with Wood Group PSN.
- Capita Healthcare Analytics, offering the market unique analytics and insight, secured national contracts with Monitor and the government of Northern Ireland.
- Healthcare Decisions continued its international growth by implementing a major new HealthLink service for the Province of British Columbia in Canada, and signing a contract with Medibank to provide services in Australia.
- Medical Direct Group saw growth in the health and social research market and successfully deployed a nurse screenings service infrastructure in the United Arab Emirates.

Operational developments & challenges:

- The overall health market remained quiet throughout 2014 but became more active at the end of the year.
- The Personal Independence Payments plans contract has achieved its milestones but initial difficulties in delivering longer assessments and lower initial volumes of assessments has had a financial impact.
- Healthcare Decisions has created a new patient relationship management software solution (Salus) built on Microsoft Dynamics which will be piloted with a major insurance provider.
- Capita Healthcare Analytics: The Cymbio acquisition has been integrated into the CHKS analytics business and the products and services offered fit neatly with both our analytics and our health advisory businesses. Both teams have built the Cymbio proposition into their own ranges and referred business into their client base.
- Medical Direct Group, together with its partner TNS-BMRB, was awarded the prestigious UCL longitudinal research study – Whitehall II. Our partnership with TNS-BMRB was also successful in winning the National Survey for Health and Development 1946 study. These two contracts are a clear demonstration of how the business has been able to build on its existing capability and create a service which has gained recognition from one of the world's most prestigious research organisations.
- Disposed of our corporate occupational health business to Medigold, as it was recognised that this was no longer a core service for Capita.

2015 priorities

Following a refocus around our clients and recognising the diverse services in this division, the operations will be re-allocated to other divisions to sit alongside complementary businesses and contracts.

Our priority for major deals in the health sector in 2015 will be to address the opportunities within the NHS and Department of Health.

Following the launch of Capita Health Partners, focus on growing our client base and further expanding our service offering for healthcare providers and commissioners.

Workplace Services

This division houses our HR, resourcing and learning businesses, travel and events and our AXELOS public sector subsidiary partnership.

2014 summary:

	2014	2013
Revenue	£695.6m	£566.0m
Underlying operating profit	£91.5m	£73.5m
Underlying operating margin	13.2%	13.0%
Capex	£11.0m	£9.2m

Business development highlights:

- Successful roll out of Contingent Labour One, a framework to deliver contractor resources into central government and Arm's Length Bodies.
- Won multi-year contracts with Network Rail for both their managed recruitment (RPO) and business travel spend.
- Enhanced our recruitment services offering by acquiring Monarch Education Recruitment.
- Won a pre-employment screening contract to support John Lewis in our Security Watchdog team.
- Started developing the Wider Public Sector learning framework from February 2014. To date we have signed up nearly 100 organisations in local government, NHS, MoD, emergency services, and public corporations including Sellafield and Magnox. A diverse range of training solutions have been procured through our supplier management team from electronic warfare and driver training through to major change programmes and executive coaching.
- Selected to deliver a customised customer experience transformation programme for TSB Bank via our Blue Sky team.

Operational developments & challenges:

- A very positive first year for AXELOS, our public sector subsidiary partnership with the Cabinet Office to promote and grow Best Management Practice. As well as maintaining exam volume sales across its core product portfolio, the business has established a global partner programme and commenced the planning for the launch of new products in 2015.
- Continued to drive process change enhancements in Army recruiting through the Recruiting Partnering Project (RPP).
- Migration of the HR and payroll services for London Borough of Barnet to our Belfast Shared Service centre.
- Worked with public and private sector customers to roll out an enhanced HR/finance BPO offering based on our new technology platform and service capability.
- Retention and growth of numerous multi-year managed employment screening contracts through Security Watchdog.

2015 priorities

Continue the comprehensive business change programme within RPP to deliver enhanced ways of working and to leverage new technology platforms, while maintaining recruiting volumes and service quality. Further improve the candidate recruitment experience across all channels including further mobile platforms.

Use our knowledge of recruitment, learning and HR services to offer insight to companies to inform their recruitment and retention strategies.

Grow core product (PRINCE2 and ITIL) exam volumes in AXELOS alongside launching new products, including Cyber Resilience Best Practice and Continuous Professional Development.

Refine our HR Solutions offering through building proprietary capability in order to sell and deliver repeatable growth.

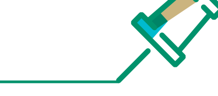
Delivery of a revised proposition in the learning services space through the focus on the specialist learning, managed learning (LPO) and emerging talent markets.

Deliver a suite of enhanced travel technology tools and services to support the business travel proposition.

Strong leadership and robust processes continued

Justice & Secure Services

This division comprises our businesses servicing the police and emergency services market, custody and border services, our digital and gamification businesses, parking services, AMT-SYBEX, Fire Service College and our TfL and Electronic Monitoring contracts.



2014 summary:

	2014	2013
Revenue	£565.8m	£411.4m
Underlying operating profit	£77.2m	£64.9m
Underlying operating margin	13.6%	15.8%
Capex	£21.9m	£15.2m

Business development highlights:

- Completed a number of acquisitions to enhance our offerings & market diversification including: AMT-SYBEX's innovative software and associated services for large organisations in the utility and transport sectors, Eclipse Legal's Case and Practice Solutions, Liberty Printing's print solutions for public authorities and private sector business, PageOne communications' business process automation solutions and Retain International's workforce planning solutions.
- Created ControlWorks, a next generation command and control solution for the emergency services market and won our first ControlWorks contract with Derbyshire Police and a key public national infrastructure organisation.
- Won a contract with the Metropolitan Police Control Room Futures programme (a partnership with Lockheed Martin) a key strategic programme for the UK's largest police force.

Operational developments & challenges:

- We created an innovative simulation platform for the Fire Service College (FSC), the 'BLUEHAWK' solution, developed by G2G3, allowing emergency personnel to train in a realistic, yet safe environment while being exposed to a range of different crisis situations.
- G2G3's digital strengths in terms of innovation, game science and next generation web platforms have been introduced into a number of projects.
- Successfully completed a major IT transformation programme in Southwark Council providing the foundation for future service transformation.
- Seamlessly took over the Electronic Monitoring contract, delivering the existing solution & services while in parallel developing our new solution that will see just one consistent service being delivered across England & Wales.
- In the final stages of completing a transformation programme for English Heritage, and the successful launch of the new Stonehenge visitors centre.
- Commenced implementation of Congestion Charging, Low Emission Zone and Traffic Enforcement Notice Processing schemes on behalf of TfL and early take-on of services.
- The loss of the Disclosure & Barring Service contract and the initial implementation costs of the Electronic Monitoring contract impacted margins in the year.

2015 priorities

Innovation, digital transformation and emerging technologies will continue to be key themes for the division in 2015.

Seek to develop and acquire new disruptive technologies that will bring operational benefits to new and existing clients.

AMT-SYBEX priorities are to support Ofgem's gas settlement reform through alignment with project Nexus; delivering the next generation of our award-winning mobile platform Fieldreach; maximise opportunities from water competition; deliver packaged analytics offerings to support energy industry reform and delivering a smart metering solution integrated to industry standards.

Transport for London: Completion of implementation programme for Congestion Charging, Low Emission Zone and Traffic Enforcement schemes and smooth go-live of operations in June 2015.

Complete the new hi tech solution for Electronic Monitoring that will monitor all individuals placed on a tag, providing key agencies with valuable up-to-date information to drive greater compliance amongst offenders. Introduce the latest hand-held technology to ensure our field-force can monitor all individuals appropriately 24/7.

We will continue to expand our parking and enforcement proposition into new market segments.

On behalf of the Board:

Andy Parker
Chief Executive

Gordon Hurst
Group Finance Director

25 February 2015

Governance

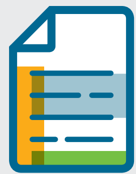
This section of our report introduces our Board members and contains our Directors' report, which consists of the Corporate governance statement, the Audit and Risk Committee report and the Directors' remuneration report.

Board members
see page 68

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

Corporate governance statement
see page 70

Martin Bolland, Non-Executive Chairman, introduces a report on how the Company applies the principles of the UK Corporate Governance Code 2012, a formal report on compliance with the Code provisions and other statutory and regulatory information.



Audit and Risk Committee report
see page 86

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

Directors' remuneration report
see page 92

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

Board members

During 2014, the Board was comprised of nine Directors, made up of the Chairman, Chief Executive and four other Executive and three Independent Non-Executive Directors. On 1 January 2015, we appointed Andrew Williams as an additional independent Non-Executive Director to extend the skills of the Board.

With over 90 years' combined experience working for Capita, we continue to believe that we have a talented and substantial team in place to support our continued growth. As the Group continually grows and diversifies, we regularly review the Board composition to ensure it meets the needs of the business.

Non-Executive Directors

Martin Bolland

Non-Executive Chairman

Date appointed to Board: March 2008 (Chairman from 1 January 2010).
Independent: No

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

Other current appointments: Senior Adviser to Alchemy Partners; Chairman of PD Parks Holdings Limited (Parkdean Holidays); Chairman of MXC Holdings Limited.

Committee memberships: Nomination (Chair).

Gillian Sheldon

Senior Independent Director

Date appointed to Board: September 2012 (Appointed Senior Independent Director on 1 January 2013).
Independent: Yes

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

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

Committee memberships: Audit and Risk; Nomination; Remuneration.

Paul Bowtell

Non-Executive Director

Date appointed to Board: June 2010
Independent: Yes

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

Other current appointments: Chief Financial Officer of Gala Coral Group.

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

Martina King

Non-Executive Director (until May 2014)

Date appointed to Board: January 2005
Independent: Yes
Committee memberships: Audit and Risk; Nomination; Remuneration (Chair).

Martina retired from the Board following the AGM in May 2014.

Carolyn Fairbairn

Non-Executive Director

Date appointed to Board: May 2014
Independent: Yes

Key skills and experience: Substantial experience working in and advising organisations operating in regulated and non-regulated environments in both the public and private sector; In depth knowledge of broadcast and financial services.

Other current appointments: Non-Executive Director at Lloyds Banking Group; Non-Executive Director at The Vitec Group plc; Non-Executive Director at the UK Statistics Authority and the Competition and Markets Authority (where she is also Chair of the Remuneration Committee); Trustee of Marie Curie Cancer Care.

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

Andrew Williams

Non-Executive Director

Date appointed to Board: January 2015
Independent: Yes

Key skills and experience: Chartered Engineer; 10 years as Chief Executive of a FTSE 250 company, having previously held a number of senior management positions within the organisation.

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

Committee memberships: Audit and Risk; Nomination; Remuneration.

Executive Directors

Andy Parker
Chief Executive (from 1 March 2014)
Joined Capita: 2001
Date appointed to Board: January 2011

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

Additional Group responsibilities: Group charitable approach.

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

Gordon Hurst
Group Finance Director
(Until 28 February 2015)
Joined Capita: 1988
Date appointed to Board: February 1995

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

Additional Group responsibilities: Environment; Health and Safety; Supplier relationships.

Previous experience in Capita: Commercial Director.

Other external appointments: Chair of the Business Services Association's Finance and Taxation Committee.
Gordon retired from the Board on 28 February 2015.

Nick Greatorex
Group Finance Director
(from 1 March 2015)
Joined Capita: 2006
Date appointed to Board: March 2015

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

Additional Group responsibilities: Environment; Health and Safety; Supplier relationships.

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

Maggi Bell
Group Business Development Director
Joined Capita: 1999
Date appointed to Board: August 2008

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

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

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

Vic Gysin
Joint Chief Operating Officer (COO)
Joined Capita: 2002
Date appointed to Board: January 2011

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

Additional Group responsibilities: Joint responsibility for clients and employees; Group HR.

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

Dawn Marriott-Sims
Joint Chief Operating Officer (COO)
Joined Capita: 2000
Date appointed to Board: January 2014

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

Additional Group responsibilities: Joint responsibility for clients and employees; Group IT.

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

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

Paul Pindar
Chief Executive (until 28 February 2014)
Joined Capita in: 1987
Date appointed to Board: 1987. He became Chief Executive in 1999.

Paul retired from the Board on 28 February 2014.

Corporate governance statement

Martin Bolland
Non-Executive Chairman

Chairman's report

I am pleased to present this report on the work of the Capita Board during 2014, formed of this section (pages 70 to 77) and the section headed 'Other Statutory and Regulatory Information' (pages 78 to 81).

During 2014, the outsourcing sector has come under unprecedented scrutiny. I believe it is the Board's commitment to the highest standard of corporate governance and how this is managed across the business that has allowed us to uphold the highest standards of business practice.

Of course, governance must work within the structure of a whole organisation, without being overly cumbersome. I believe the balance struck across Capita is a result of the honest and transparent culture in place throughout the business, from Board through to business unit level.

In 2014, we welcomed Dawn Marriott-Sims as an Executive Director and Carolyn Fairbairn as a Non-Executive Director following the retirement of Paul Pindar and Martina King and in December we announced Andrew Williams as a further Non-Executive Director to the Board from 1 January 2015.

As we welcome Nick Greatorex to the Board in March 2015, our effective senior management succession planning ensures these values are carried forward into the future. Equally, I would like to recognise the significant contribution Gordon Hurst has made to ensuring Capita leads its peer group. Through his role as Group Finance Director and Company Secretary, he has played a major role in making sure the Group operates to the highest professional standards. On behalf of the Board, we wish him every success for the future. We have also decided that this is the right time in our development to split the role of Group Finance Director and Company Secretary going forward.

Results for 2014

2014 was a year of double digit revenue and profit growth, with sustained high cash flow, returns, and strong acquisition activity.

Following the smooth transition to the position of CEO at the start of the year, I am delighted that Andy Parker's strong leadership has given the Group another successful year of growth, securing new and renewed major contracts worth a total of £1.7bn and completing 17 key strategic acquisitions.

Underlying revenue[1] increased by 14% to £4,372m[2] (2013: £3,851m[3]), including 9% organic and 5% acquisition growth. Underlying operating profit[1] rose by 11% to £576.3m[2] (2013: £516.9m[3]) and underlying profit before taxation[1] increased by 13% to £535.7m[2] (2013: £475.0m[3]). Underlying earnings per share[1] grew by 10% to 65.2p[2] (2013: 59.4p[3]).

The aggregate value of new and extended major contracts secured in 2014 was £1.7bn, representing a 1 in 2 win rate. The bid pipeline has increased to £5.1bn since the Interim Management Statement in November and we have secured £1.1bn new business since the year-end. We continued to focus upon acquiring small- to medium-sized businesses in 2014, investing a total of £310m[4] on 17 acquisitions, excluding deferred and contingent considerations.

The majority of our divisions performed well in 2014, with particularly strong growth in Workplace Services and Justice & Secure Services, supported by new contracts and significant improvements in the profitability of IT Services and Property & Infrastructure, helped by the macroeconomic backdrop. These positives were partially offset by Insurance & Benefits and Health & Wellbeing, and the end of the Disclosure and Barring contract in March 2014.

See pages 46 and 56 for more information

1 Excludes non-underlying items detailed in note 5 on page 123.

2 On an ongoing basis, 2014 numbers exclude the sale of our Occupational Health business, see note 4 on page 122. 2013 numbers have not been restated on this basis.

3 2013 numbers exclude the partial sale of our Insurance Distribution and planned SIP business closure.

4 As previously announced.

Board activities in 2014

The Board meets nine times a year, operating with an open culture in line with the Group's own values and behaviours. We adopt a structured approach when setting Board and committee meetings, which are aligned with the financial calendar of our Company. We set an agenda to cover the wide range of matters that are brought to our attention, ensuring each is given appropriate time and focus.

Strategy

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

Group Board members reporting

As outlined in our management and governance structure on page 37, Executive Directors present a report and comment on performance of their respective areas at each Group Board meeting. These include the key issues (including risk and opportunity), operational and financial performance and bid and acquisition activity. This allows the Executive Directors to focus on specific issues and also for the other Directors to debate and challenge as required.

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, Nick Greatorex and Andy Parker, which also include the financial outlook for the Group.

Major bids and acquisitions

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

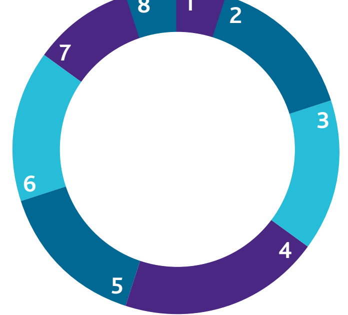
The Chief Executive Officer reports on the acquisition strategy and current acquisition activity in addition to his Chief Executive report.

The acquisition programme has assisted the Group in steadily expanding our offering and capabilities and therefore has greatly assisted the organic growth in the years beyond the immediate period of the acquisition effect.

Divisional senior management

During 2014, our Executive Board consisted of nine Divisional Executive Directors and two Group Business Development Executive Directors. Following the review of the Group's structure in November 2014, three additional Executive Directors were appointed to the Executive Board, effective 1 January 2015, recognising the importance of our major sales teams in generating future organic growth for the business. As always, we continue to keep the structure of our Divisional senior management under review to best meet the needs of the Group as it continues to grow.

Approximate allocation of agenda time in 2014



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

Corporate governance statement continued

Board evaluation in 2014

An internal evaluation was undertaken in October 2014, this was carried out by a questionnaire requiring written responses from all of the Directors. To ensure independence and objectivity, the questionnaire was conceived, administered and reviewed by the Company Secretary (Deputy Company Secretary at the time of the review). The resultant report was presented in full.

As a result of the formal evaluation exercise, some enhancements were made to the Board's review of new contracts and the approval process for acquisitions.

An external evaluation was undertaken in 2012 by Genius Methods and, therefore, an external evaluation will be undertaken during 2015.

Board evaluation process

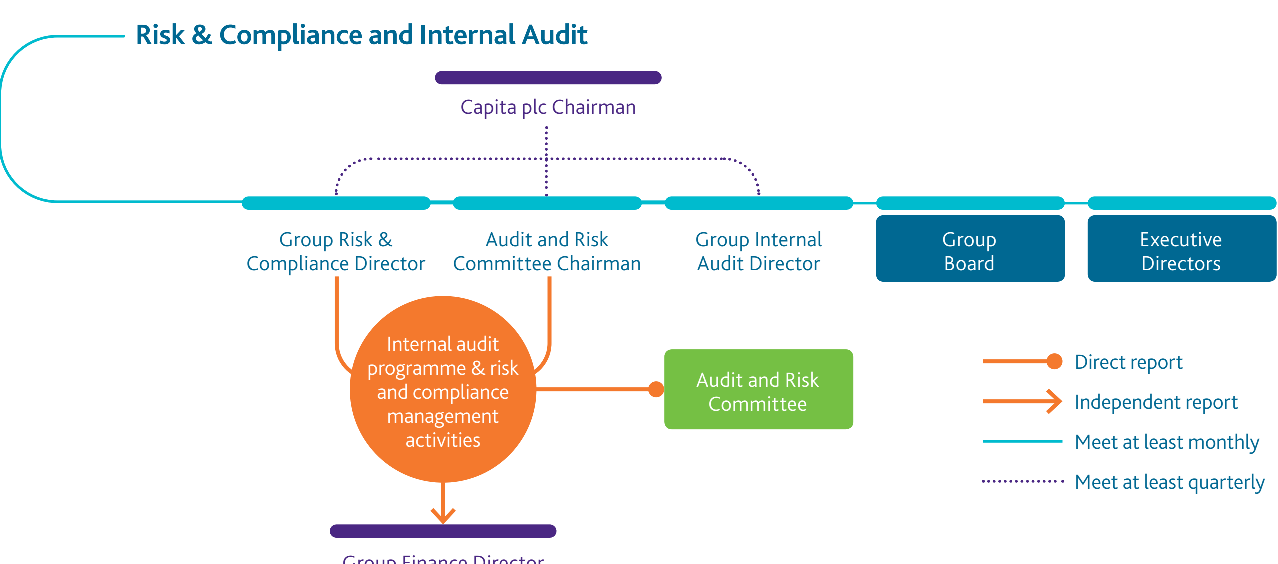
Compilation	Evaluation	Reporting	Review	2014 Outcomes	2015 Actions
Questions devised by Chairman and Senior Independent Director.	Written questionnaire completed by all Directors.	Report produced analysing responses and drawing anonymous conclusions.	Chairman meets each Board member individually to discuss performance of the Board.	Overall, very positive.	Maintain robust Governance processes and strategic behaviours of the Board.
	Devised, administered and reviewed confidentially by Company Secretary to ensure independence.	Sent to each Director for consideration.	Non-Executive Directors and Senior Independent Director meet to discuss performance of Chairman, with input from Executive Directors.	Recognition of robustness of the governance process within the Board.	Provide actions taken to address small follow up items.
			Meeting of Non-Executive Directors with Executive Directors.	Strong dynamics that exist between strategic challenge and strategic focus amongst Executive and Non-Executive Directors.	
				Some minor enhancements and amendments to Board processes.	

Chairman meets with members of the Board individually throughout the year to receive feedback and discuss current and long term opportunities.

Board balance kept under regular review by Chairman and Chief Executive.

Risk & Compliance and Internal Audit

On pages 36 to 41 in the strategic report we have described fully the roles of Risk & Compliance and Internal Audit together with the risks and internal controls for the Group. In order for the Board to ensure that the strategic direction and growth of the Group can continue successfully and with the appropriate risk oversight, a number of meetings are held throughout the year. These include individual meetings between the Group Risk & Compliance Director and the Group Internal Audit Director with the Chairman of the Audit and Risk Committee, as well as normal



scheduled meetings. Risks are identified in a number of ways and are prioritised and delegated in accordance with the risk ratings provided.

Both the Group Risk & Compliance Director and the Group Internal Audit Director report to the Group Finance Director and independently to the Audit and Risk Committee. Both report on the internal audit programme and risk and compliance management activities across the Group. They have access to all members of the Board and hold regular meetings with the Executive Directors and meet with the Audit and Risk Committee Chairman and myself at least quarterly.

Directors

The Directors of the Company currently in office are listed on pages 68 and 69.

With the announcement that Gordon Hurst will retire from the Group Board on 28 February 2015, and in line with Capita's senior management succession plan, Nick Greatorex will join the Group Board and succeed Gordon as Group Finance Director effective from 1 March 2015.

All the Board (with the exception of Gordon Hurst) will stand for re-election (Carolyn Fairbairn, Andrew Williams and Nick Greatorex for election) at the forthcoming AGM. All of the Board have received a formal performance evaluation, as described above, and each Director continues to be effective and to demonstrate their commitment to the role.

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

Martin Bolland
Non-Executive Chairman
25 February 2015

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

Capita plc and its subsidiaries (the Group) remain committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2012 (the Code) applies to accounting periods beginning on or after 1 October 2012. A copy of the Code is available from the Financial Reporting Council's website www.frc.org.uk. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in Sections A to E of the Codes except as detailed below:

As noted above, the balance of independent Non-Executives to Executives is not equal. In December 2014, we announced that Andrew Williams would be joining the Board as a Non-Executive Director from 1 January 2015. Although the Board now has five Non-Executive Directors and five Executive Directors, we remain non-compliant with the code.

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

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

This area of non-compliance is expected to remain throughout 2015, but the Board is confident that the size and make up of the Board is highly effective and appropriate.

Code provision	Area of non-compliance	Position at 31 December 2014
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 five Executive Directors and three Independent Non-Executive Directors and a Non-Executive Chairman.

Corporate governance statement continued

Board changes in the year

Name	Date	Position
Dawn Marriott-Sims	1 January 2014	Appointed Joint COO
Paul Pindar	28 February 2014	Retired as CEO
Martina King	12 May 2014	Retired as a Non-Executive Director
Carolyn Fairbairn	13 May 2014	Appointed Non-Executive Director
Andrew Williams	1 January 2015	Appointed Non-Executive Director
Gordon Hurst	28 February 2015	Retired as Group Finance Director
Nick Greatorex	1 March 2015	Appointed Group Finance Director

Further information on the changes to the Board is set out in the Nomination Committee report on page 85.

Board composition

	Executive Directors	Non-Executive Directors
January 2014 – 28 February 2014	Paul Pindar Andy Parker Gordon Hurst Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland Gillian Sheldon* Paul Bowtell* Martina King*
1 March 2014 – 12 May 2014	Andy Parker Gordon Hurst Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland Gillian Sheldon* Paul Bowtell* Martina King*
13 May 2014 – 31 December 2014	Andy Parker Gordon Hurst Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland Gillian Sheldon* Paul Bowtell* Carolyn Fairbairn*
1 January 2015 – 28 February 2015	Andy Parker Gordon Hurst Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland Gillian Sheldon* Paul Bowtell* Carolyn Fairbairn* Andrew Williams*
1 March 2015	Andy Parker Nick Greatorex Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland Gillian Sheldon* Paul Bowtell* Carolyn Fairbairn* Andrew Williams*

*Independent in accordance with the Code.

Frequency of meetings and attendance

During 2014, the Board met nine times, excluding ad hoc meetings, solely to deal with procedural matters. Attendance of the Board Directors is recorded in the table below:

	Board meetings
Scheduled meetings	9
Martin Bolland	9
Andy Parker	9
Gordon Hurst	9
Maggi Bell	8
Vic Gysin	9
Dawn Marriott-Sims	9
Gillian Sheldon	9
Paul Bowtell	8
Carolyn Fairbairn*	6
Paul Pindar*	2
Martina King*	3

*Carolyn Fairbairn was not appointed to the Board until 13 May 2014. Paul Pindar and Martina King retired from the Board on 28 February and 12 May 2014 respectively.

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

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

During 2014, the following formal Director meetings took place:

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

Board leadership

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

Martin Bolland as Non-Executive Chairman and Gillian Sheldon as Senior Independent Director also held meetings solely comprising the Non-Executive Directors during 2014. Both Martin and Gillian 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 towards all 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 and divisional management and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

Board independence

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

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

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

Corporate governance statement continued

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) review reports
- the Group approach to risk management.

On the announcement of the appointments of Dawn Marriott-Sims and Nick Greatorex to the Board, the Company Secretary and the Group Risk & Compliance Director held specific training sessions which included their responsibilities as a Director of a Listed Company, and risk and governance areas. A full induction was not required given that Dawn and Nick had worked within Capita for a number of years.

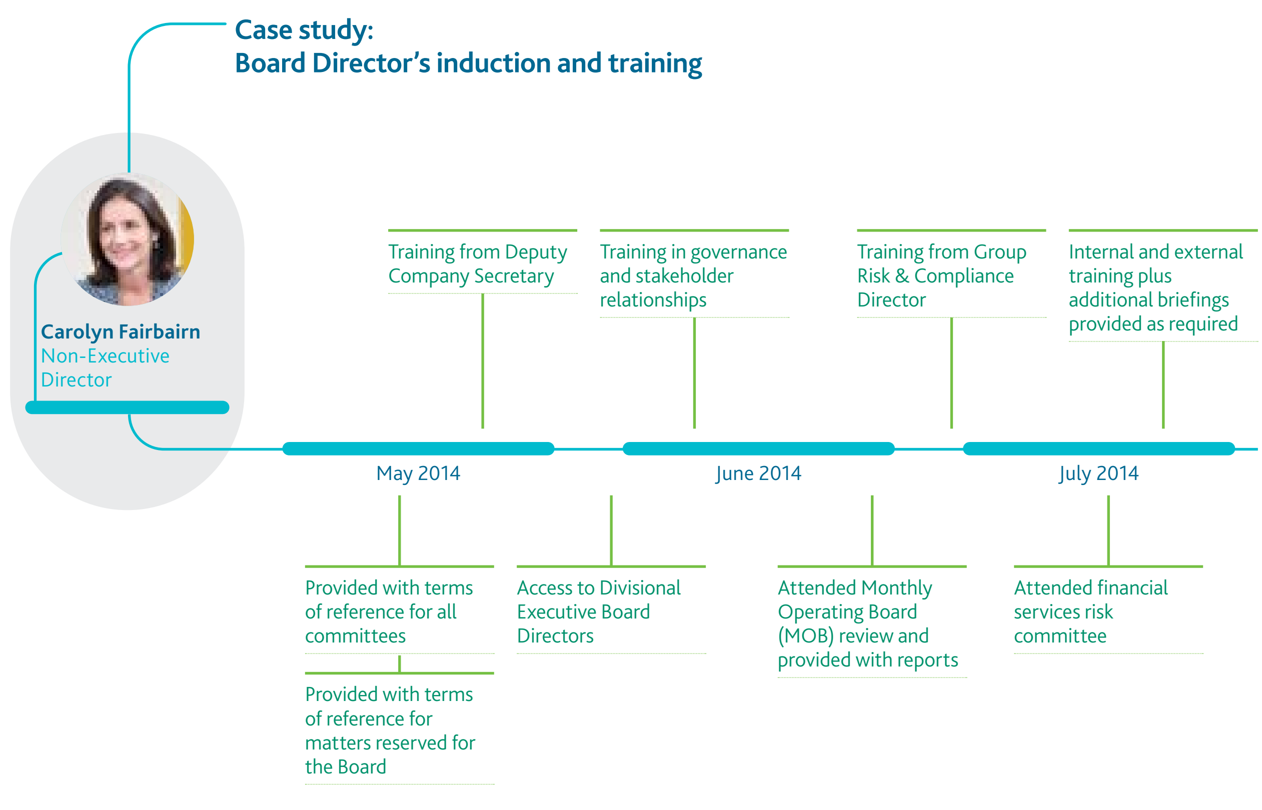
Carolyn Fairbairn and Andrew Williams received training and induction sessions with the Chairman, Executive Directors, the Company Secretary, the Group Risk & Compliance Director and the Group Internal Audit Director.

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

Matters reserved for the Board

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

- strategy and management including responsibility for the overall leadership of the Company and setting the Company's values and standards and overview of the Group's operational management
- structure and capital including changes relating to the Group's capital structure and major changes to the Group's corporate structure including acquisitions and disposals and changes to the Group's management and control structure
- financial reporting including the approval of the half-yearly report, interim management statements and preliminary announcement for the final results. Also the approval of the dividend policy, the setting and approval of treasury policies and establishing and maintaining accounting policies.



- internal controls, ensuring that the Group manages risk effectively and approving all acquisitions, disposals of assets and share acquisitions
- contracts, including approval of all major capital projects and major investments including the acquisition of disposal of interest of more than 3% in the voting shares of any company or the making of any takeover offer
- ensuring satisfactory communication with shareholders
- any changes to the structure, size and composition of the Board.

Company Secretary

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

Francesca Todd was appointed as Company Secretary (previously Deputy Company Secretary), on 12 November 2014. She is available to all Directors and is responsible for ensuring that all Board procedures are complied with.

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

Dialogue with shareholders

The Board encourages and seeks to build a mutual understanding of objectives between the Group and its shareholders. As part of this process the Executive Directors make regular presentations and meet with institutional shareholders to discuss the Group's business model and growth strategy, address any issues of concern, obtain feedback and consider corporate governance issues.

The Board welcomes the revised UK Stewardship Code 2012 and the steps it has made to improve engagement and purposeful dialogue between companies and investors. All shareholders are encouraged to attend the Annual General Meeting and information for shareholders is available on the Company's website – www.capita.co.uk. All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The Chairman is available to the significant shareholders of the Group.

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

In 2014, the Corporate Communications team and the Board maintained active, targeted communications with existing and potential shareholders and the wider investment community. The team focused on creating opportunities for Capita's new CEO to further build his relationships with the investment community. It also heightened efforts to target long term underweight shareholders and non-holders in the UK and North America to increase appetite in holding the stock. This was in response to concerns that, due to personnel and structural changes at our largest shareholder, there was potential that the institution may need to reduce their shareholding. This did occur but the shares were fairly smoothly taken up by long term investors. As a result, Capita's share register contains a more balanced set of long term shareholders with substantial shareholdings rather than being dominated by one institutional shareholder.

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

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

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 92 to 108.

Internal control

This process is regularly reviewed by the Board. The Group's key internal control procedures are fully documented within the strategic report on pages 2 to 66.

Strategic report

The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 December 2014 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found in pages 2 to 66. Details of the Group's business goal, strategy and model are on pages 2 and 3. The information that fulfils the requirements of the corporate governance report can be found in pages 70 to 77.

Corporate governance statement continued

Other statutory and regulatory information

Corporate governance report

The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure and Transparency Rules is set out on pages 67 to 108.

Election to apply FRS101 – Reduced Disclosure Framework

The parent company continues to apply UK GAAP in the preparation of its individual financial statements and these are contained on pages 167 to 174. In 2015, the parent company will be electing to apply FRS101 – Reduced Disclosure Framework in response to the change in financial reporting standards in the United Kingdom and Republic of Ireland. FRS101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

Management report

For the purposes of Rule 4.1.5R(2) and Rule 4.1.8 of the Financial Conduct Authority's Disclosure and Transparency Rules, this Directors' report and the strategic report on pages 2 to 66 comprise the management report.

Events after the balance sheet date

Subsequent to the balance sheet date, the Group is in the process of acquiring Avocis, a leading provider of customer contact management services in Germany, Switzerland and Austria, for a consideration of £157m on a cash/debt free basis. On 28 January 2015, the Group completed the acquisition of the Constructionline business, which specialises in procurement and supply chain management services, for a consideration of £35m on a cash/debt free basis.

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 (apart from Gordon Hurst) will retire and will offer themselves for re-election (Carolyn Fairbairn, Andrew Williams and Nick Greatorex for election) at the Annual General Meeting in May 2015, in accordance with the UK Corporate Governance Code.

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

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

Group activities

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

On behalf of its clients, Capita aims to improve service quality, reduce costs of service delivery and enable clients to transform the way that they deliver services to their customers. The services that Capita provides are essential to the smooth running and success of its clients' operations. Capita designs, successfully implements and manages tailored service solutions, ranging across administration, information technology, financial, human resources, property and customer service functions.

Capita maintains leading positions in the majority of its markets due to its scale and ability to draw on this wide base of professional services, detailed market knowledge and extensive business process transformation and change management skills.

A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 2 to 66. Our divisional operations and financial performance are detailed on pages 56 to 66.

Profits and dividends

The Group's reported profit before taxation amounted to £292.4m (2013: £215.0m). The Directors recommend a final dividend of 19.6p share (2013: 17.8p per share) to be paid on 28 May 2015 to ordinary shareholders on the Register on 17 April 2015. This gives a total dividend for the year of 29.2p per share (2013: 26.5p 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.

Directors' interests

Details of Directors' interests in the share capital of the Company are listed on page 105.

Share capital

At 18 February 2015, 670,090,483 ordinary shares of 21/15p each have been issued and are fully paid up and are quoted on the London Stock Exchange. 8,146,585 shares are held in treasury and the total voting rights equated to 661,943,898. During the year ended 31 December 2014, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 215,122 new ordinary shares. 3,050 shares have been allotted under these schemes since the end of the financial year to the date of this report. 2,215,832 of the issued share capital is held within an employee benefit trust for the use of satisfying employee share options.

The share price at 31 December 2014 was 1,081p. The highest share price in the year was 1,235p and the lowest was 983.5p.

Major shareholders

At 31 December 2014, the Company had received notifications that the following were interested in accordance with the Disclosure and Transparency Rules (DTR):

Shareholder	Number of shares	% of voting rights as at 31 December 2014	Number of shares direct	Number of shares indirect
Marathon Asset Management LLP	22,616,929	3.42	–	22,616,929
Woodford Investment Management LLP	34,308,895	5.18	34,308,895	–
Invesco Asset Management	68,629,267	10.37	–	68,629,267
Veritas Asset Management LLP	48,806,441	7.37	48,806,441	–

On 18 February 2015, the Company had received notifications that the following were interested in accordance with the DTRs:

Shareholder	Number of shares	% of voting rights as at 18 February 2014	Number of shares direct	Number of shares indirect
Marathon Asset Management LLP	22,933,805	3.46	–	22,933,805
Woodford Investment Management LLP	35,060,250	5.30	35,060,250	–
Invesco Asset Management	68,877,348	10.41		68,877,348
Veritas Asset Management LLP	48,291,643	7.30	48,291,643	–
Legal & General Investment Management	19,920,066	3.01	16,993,998	2,926,068
BlackRock, Inc*	37,402,567	5.65	–	36,903,290

*This figure includes a contract for difference (CFD) for 499,277.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in May 2014. During the year, the Company did not purchase any shares (2013: nil).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 2 to 66. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 46 to 49. In addition, note 26 to the financial statements on page 143 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

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

Corporate governance statement continued

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.

Political donations

The Group did not make any political donation or incur any political expenditure during the year (2013: £nil).

Green house gas emissions

Details of the Group's greenhouse gas emissions are set out on page 51 of the strategic report.

Financial instruments

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

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

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

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

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

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

The Group is not generally exposed to significant foreign currency risk, except in respect of its overseas operations in India and South Africa, which generates exposure to movements in the Indian Rupee and South African Rand exchange rates. The Group seeks to mitigate the effect of this exposure by entering forward currency instruments, including non-deliverable forward contracts, to fix the sterling cost of highly probable forecast transactions denominated in Indian Rupees and South African Rand. Further details of the Group's financial instruments can be found in note 26 to the consolidated financial statements on pages 143 to 150.

Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contains a provision that enables the Company to indemnify the Directors of the Company in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Such provisions have been in force during the year and are in force at the date this report is approved. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2015 Annual General Meeting from 15 minutes before the meeting until it ends.

During 2014, it was agreed to give all Directors of the Company deeds of indemnity. These will be available for inspection at the Annual General Meeting with the service contracts.

Powers of Directors

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

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

Change of control

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

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

During 2014, Deeds of Indemnity were put in place for all Directors of Capita plc and have been put in place for Nick Greatorex and Andrew Williams.

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

Rights and restrictions attaching to shares

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

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

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

Restrictions on transfer of shares

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

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

Annual General Meeting

The 2015 Annual General Meeting (AGM) of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB, on 12 May 2015. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which is sent to shareholders with the 2014 annual report and accounts and includes notes explaining the business to be transacted and is also available on the Company's website at www.capita.co.uk.

In May 2014, shareholders also granted authority for the Company to issue up to 66,059,796 ordinary shares which will expire at the conclusion of the 2015 AGM. 215,122 shares were issued during 2014. A resolution to renew this authority will be put to shareholders at the 2015 Annual General Meeting. No shares were purchased during 2014. A resolution to renew this authority will be put to shareholders at the 2015 Annual General Meeting.

At the AGM in May 2015, it will be proposed that new articles of association be adopted by shareholders. Full details of the changes are included within the notice of meeting.

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

Corporate governance statement continued

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

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

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

Election to apply FRS101 – Reduced Disclosure Framework

The parent company continues to apply UK GAAP in the preparation of its individual financial statements and these are contained on pages 167 to 174. In 2015, the parent company will be electing to apply FRS101 – Reduced Disclosure Framework in response to the change in financial reporting standards in the UK and Republic of Ireland. FRS101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

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

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

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

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

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

Details of the principal risk categories can be found on page 42.

Approval of the annual accounts

Directors' responsibility statement

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

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

Directors' statement on the annual report

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

On behalf of the Board

Francesca Todd
Company Secretary
25 February 2015

Capita plc
Registered in England and Wales
No. 2081330

Committees

Committees' terms of reference

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

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

Membership of the committees

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

	Martin Bolland	Gillian Sheldon	Carolyn Fairbairn	Paul Bowtell
Nomination	(C)x	x	x	x
Audit and Risk		x	x	(C)x
Remuneration		x	(C)x	x

(C) Chair

Andrew Williams was appointed as a member to the Nomination, Audit and Risk and Remuneration Committees at appointment on 1 January 2015.

Frequency of committee meetings and attendance

During 2014, the Nomination Committee met four times, the Remuneration Committee met five times and the Audit and Risk Committee met nine times. Attendance of the Board Directors at committee meetings is recorded in the table below:

	Nomination Committee meetings	Remuneration Committee meetings	Audit and Risk Committee meetings
Scheduled meetings	4	5	9
Martin Bolland	4	n/a	n/a
Gillian Sheldon	4	5	9
Paul Bowtell	4	5	9
Carolyn Fairbairn*	1	3	6
Martina King*	3	2	3

*Carolyn Fairbairn was not appointed to the Board until 13 May 2014. Paul Pindar and Martina King retired from the Board on 28 February and 12 May 2014 respectively.

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

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

Committees continued

Group Financial Services Risk Committee

The Group Financial Services Risk Committee was established at the beginning of 2012 and meets at least quarterly to assess the risks across Capita's financial services businesses. The Forum is chaired by Tim Brooke, an independent member of the Committee. Members include: Martin Bolland, Vic Gysin and Gordon Hurst and the Group Risk & Compliance Director. Other key divisional staff are invited to attend and report to this forum. All Non-Executive Directors have open invitations to attend any of these meetings.

The terms of reference for this forum include:

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

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

The Group Financial Services Risk Committee met four times in 2014 and attendance was as follows:

Name of member	Number of meetings attended
Tim Brooke	4
Martin Bolland	3
Gordon Hurst	4
Vic Gysin	4
Chris Terry	4

In November 2014, the Group Financial Services Risk Committee undertook an evaluation. In line with the Board Evaluation this was broadly positive. Few actions were identified, but it was agreed that a review of some reporting papers would be undertaken in 2015. The committee membership would also be reviewed in 2015.

Non-Financial Services Risk Committee

Non Financial Services Risk Committee was established at the end of 2013. It meets bi-annually to assess the risks outside of financial services. In 2014, it was chaired by Gordon Hurst and membership includes:

Dawn Marriott-Sims, Vic Gysin, and the Group Risk and Compliance Director. The Group Internal Audit Director also attends with the Head of Risk. All Non-Executives have an open invitation to attend these meetings.

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

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

The Non-Financial Services Risk Committee met twice in 2014 and attendance was as follows:

Name of member	Number of meetings attended
Gordon Hurst	2
Vic Gysin	1
Dawn Marriott-Sims	2
Chris Terry	1

Nomination Committee report

Martin Bolland
Chair, Nomination Committee

I am pleased to present the report on the activities of the Nomination Committee for the year to 31 December 2014. I am delighted that Capita's senior management succession planning continues to provide continuity for senior appointments within the Group. I have been impressed how both Andy and Dawn have embraced their new roles and provided clear leadership across the business. Set out below is a summary of the work carried out during the year.

Members:

- Martin Bolland (Chair)
- Gillian Sheldon
- Paul Bowtell
- Martina King (until 12 May 2014)
- Carolyn Fairbairn (from 13 May 2014)
- Andrew Williams (from 1 January 2015)

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

The Committee met four times in 2014 and the attendance is shown on page 83.

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

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

Board diversity

In 2014, 20% of our senior management team and 44% of our Board were women. Capita sees significant business benefit in having access to the diversity of thinking that comes from people with a wide range of backgrounds at all levels in the Company. Only by encouraging this diversity and by fostering talent throughout the business can the Company expect to achieve further diversity in senior management. Capita has a network of diversity champions across the Group and the Company's training and mentoring initiatives actively support the fostering of talent at all levels in the business across the Company's diverse workforce. The Board and senior management teams across Capita are fully committed to continuing to foster talent and support those people from all backgrounds who wish to progress. However, the Company will also continue to appoint and promote people on merit and in line with the skills and attributes identified for each post, including those identified by the Nominations Committee for the Board. Further information is shown on page 53 of the strategic report.

From 1 January 2015, we have appointed a Director of Talent to further identify and develop talent from within the Group and attract new external talent.

Committee activities during 2014

Key Responsibilities	Activity in 2014
to identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition to keep the structure and size of the Board and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board to review the time commitment required from Non-Executive Directors, the performance of Directors and all declarations of interest made by Board members to consider the Group diversity position.	Succession planning for the Board generally All Directors stand for election or re-election at the AGM, therefore consideration of the performance of all Directors, length of service, their interests and potential conflicts were considered. Diversity of the Board Conflicts of interests were considered for the independence of the Non-Executive Directors The time committed by the Non-Executives was considered and remained appropriate to ensure that each discharged their duties and responsibilities; Appointment of Carolyn Fairbairn and Andrew Williams as Independent Non-Executive Directors Retirement of Gordon Hurst Appointment of Nick Greatorex. Continuing with the strength of Capita of identifying and recruiting from within Group, Nick Greatorex had been identified by the Board and had undertaken a thorough and formal interview process and series of meetings with all members of the Board. For all of the appointments within the year they included consideration of the size and structure of the Board and the balance and range of its Directors' knowledge and experience. External search agencies and open advertising were not used for any of the new Board appointments as the Executive Director appointment was made as a result of a long term internal succession planning exercise and the non-executive appointments were sourced through the Board's own targeted searches. Martin Bolland will continue to review the opportunities for the Board on an ongoing basis.

Audit and Risk Committee report

Paul Bowtell
Chair, Audit and Risk Committee

I am pleased to present the report on the activities of the Audit and Risk Committee for the year to 31 December 2014.

Members:

- Paul Bowtell (Chair)[1,3]
- Gillian Sheldon[1]
- Carolyn Fairbairn (from 13 May 2014)[1]
- Tim Brooke[2]
- Martina King (until 12 May 2014)[1]
- Andrew Williams (from 1 January 2015)

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.

Attendance

The attendance of the Board members for the Audit and Risk Committee is shown on page 83.

Tim Brooke is a member of the Audit and Risk Committee only and is not a Non-Executive Director of Capita plc. Tim Brooke is an independent non-executive chair of Capita's Financial Services Risk Committee. Tim Brooke's primary role is to provide quarterly feedback to the Committee from the Financial Services Risk Committee. He attended three meetings of the Audit and Risk Committee during 2014.

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

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

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

Role and responsibilities

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

- to review the reporting of financial and other information to the shareholders of the Company and monitor the integrity of the financial statements
- 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
- 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
- to report to the Board on how it has discharged its responsibilities.

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

Committee activities during 2014

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

1 Independent Non-Executive Director.

2 Tim Brooke is independent to Capita and brings his expertise in the Financial Services sector to support the Committee. He is not an independent Non-Executive Director of Capita. Tim Brooke's primary role is to provide quarterly feedback to the Committee and the link with the Financial Services Risk Committee.

3 Paul is a Chartered Accountant, with recent and relevant financial experience for the purposes of the Code and the FRC's Guidance on Audit and Risk Committees.

During the year, the Committee undertook the following activities:

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

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

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

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

2014 saw the continuation of a programme to continually improve our risk management framework to better support the ongoing development of the business. Further detail is shown on page 38 of the strategic report.

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

Revenue and profit recognition

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

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

Audit and Risk Committee report continued

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

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

Acquisition activity and accounting

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

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

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

Acquisition process:

Introduction via Capita divisions, external intermediaries or direct approach

↓

Central acquisitions team apply pricing and process disciplines

↓

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

↓

Sign off by Group Board

↓

Completion

80-90% of ideas screened out during process

Carrying value of goodwill and intangibles

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

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

The Committee has reviewed the external Auditors report and, where necessary, sought further confirmation or explanation from the Board and specifically the Group Finance Director and Group Financial Controller, to ensure that the value of goodwill and the disclosures included in these financial statements are appropriate. The Audit and Risk Committee, having made these enquiries, agrees with management that no impairment need be recognised.

Underlying and non-underlying presentation

The Committee remains of the view that the presentation of the underlying and non-underlying information provides useful disclosure to aid the understanding of the performance of the Group.

The major considerations when reviewing the presentation of the non-underlying items (being the items labelled as non-underlying and business disposal/closure) are:

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

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

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

The two matters are as follows:

- the potential costs in resolving a claim by those investors who did not choose to accept the Arch Cru Payment Scheme established in 2011. The Payment Scheme has had an 87% acceptance rate
- the potential costs in resolving matters relating to a fund, of which CFM was the Operator until September 2009, when it was replaced by an unrelated company as Operator (following which CFM had no further involvement with the fund). The fund went into liquidation in 2012 and its liquidator has brought a claim against both former Operators.

Giving due consideration to these claims, the Group has made a provision of £24.8m at 31 December 2014 (2013: £0.7m).

The Committee reviews the presentation of any divestment or planned closures of businesses in the year and whether they are properly disclosed in the report and accounts. They were satisfied in this regard that the item presented this year (the disposal of part of the Occupational Health business) was consistent with disclosures previously included in the financial statements.

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

Defined benefit pension liabilities

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

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

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

Provisions

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

Materiality

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

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

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

Disclosure of information to Auditor

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

Audit and Risk Committee report continued

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

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

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

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

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

Non-audit fees
The Committee has established a policy on the provision of services by the Group's Auditor. The policy describes the circumstances in which the Auditor may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the policy and considers and approves requests to use the Auditor for non-audit work. Any assignment where the expected fee is above £150,000 requires specific approval from the Committee or a member of the Committee. The Company Secretary deals with day-to-day administration of the policy, facilitating requests for approval by the Committee. The Auditor undertook various non-audit work such as assistance on acquisitions and bids across our business in 2014.

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

The policy is reviewed by the Committee annually. Details of audit and non-audit fees are given in note 7 on page 127.

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

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

The Code states that FTSE 350 companies should tender the provision of audit services at least every 10 years or explain their approach, if different. In 2013, KPMG Audit Plc notified the Company that they were not seeking reappointment. This was to facilitate the orderly wind down of the business of KPMG Audit Plc. At the 2014 AGM, KPMG LLP were approved as Auditors for the Company.

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

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

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

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

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

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

The risks and uncertainties which are currently judged to have the most significant impact on the Group's long term performance are set out on pages 42 to 44. The Committee has reviewed the effectiveness of the Group's risk management and internal control systems. A refresh of the overall risk management framework commenced in 2013 was continued in 2014 and this constant challenge and refocusing will continue in order to identify and develop any response to a change in the Group's risk profile.

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

A refresh of the overall Risk Management Framework took place during 2013 and was approved by the Board in May 2014. This enhanced risk framework introduced a defined set of risk categories which form the basis of defining the Group's appetite to risk. In establishing this tolerance and critical limit/concern risk appetite, the Committee is able to maintain governance over the principle risks to the Group and ensure effective mitigation is in place.

Internal audit

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

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

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

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

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

Anti-bribery and whistleblowing (speak up)

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

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

Paul Bowtell
Chairman
Audit and Risk Committee
25 February 2015

Directors' remuneration report

Carolyn Fairbairn
Chair, Remuneration Committee

Annual Statement from the Remuneration Committee Chair

Dear Shareholder,

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

In last year's remuneration report, the Committee set out its Remuneration Policy relating to Executive and Non-Executive Directors. That Remuneration Policy was approved by shareholders at the 2014 AGM and will remain effective during 2015. Accordingly, there will be no shareholder vote on the Remuneration Policy at this year's AGM.

There will be an advisory vote at the AGM on the annual report on remuneration as set out on pages 92 to 108. This section of the remuneration report provides details of how the Policy will be operated during 2015 and also provides details of the remuneration earned by Directors in the year ended 31 December 2014.

Summary of remuneration policy and strategy

The remuneration strategy of Capita is to provide a pay package that:

- attracts, motivates and retains the best employees
- encourages and is supportive of a high performance culture
- rewards the fulfilment of the overall business plan of the Group
- promotes the long term success of the Group
- aligns management with the interests of our shareholders and other external stakeholders
- is consistent with our risk policies and systems.

In order to achieve this, our Remuneration Policy for Executive Directors is to set fixed pay (base salary plus benefits) around the market lower quartile and to offer the potential for competitive levels of total pay if stretching performance targets attached to incentive awards are met. Our policy is that performance-related pay should form a significant part of Executive Directors' remuneration packages with an appropriate balance between short and longer term targets linked to delivery of the Group's business plan.

I have set out below the key activities undertaken by the Remuneration Committee during the past year as we have applied the principles outlined above.

Retirement of Directors

As a Committee, we recognise our responsibility to ensure that payments to departing Directors are determined fairly both for shareholders and for the departing individuals.

As disclosed in last year's remuneration report, Paul Pindar received no payments following his retirement on 28 February 2014 and his outstanding share awards were pro rata reduced for the time period post-retirement and remained subject to the existing performance conditions.

As explained in our announcement in November 2014, a similar arrangement will be applied for Gordon Hurst. He will receive no payments following his retirement on 30 September 2015 and his outstanding share awards will be pro rata reduced for the time period post-retirement and remain subject to the existing performance conditions. Gordon Hurst steps down as a Board Director on 28 February 2015 and will continue to be employed until 30 September 2015.

Malus and clawback provisions

In our existing Remuneration Policy, the Remuneration Committee has the ability to withhold Executive Directors' incentive payments (via malus provisions) in the event of overpayments arising from material abnormal write offs of an exceptional basis not included in normal underlying profit before tax and EPS.

Following the publication of the revised UK Corporate Governance Code, the Remuneration Committee is strengthening its flexibility in this area in line with best practice:

- Clawback provisions have been added to all of the Executive Directors' incentive plans to complement the existing malus provisions. This would permit the Remuneration Committee to clawback payments for up to three years after the determination of the annual bonus and up to the fifth anniversary of the grant of LTIP awards
- The potential circumstances in which malus or clawback provisions can be applied will be extended to include a material restatement of the Group's financial results, if an individual deliberately misleads relevant parties regarding financial performance or if their actions cause reputational damage or amount to serious misconduct or conduct which causes significant financial loss.

Performance and reward in 2014

2014 was a year of strong sales, operational and financial performance. The Group financial results illustrate our ability to deliver strong sustainable growth. During the year, the Group successfully made 17 acquisitions. Reporting record profits for the 26th successive year demonstrates the strength of our business model, the strong and effective leadership of our senior management team and the talents of our people.

This strong performance is reflected in the maximum annual bonus awarded to the Executive Directors in respect of performance in 2014. Further details relating to the bonus are set out on page 104. With the exception of Gordon Hurst who is retiring, all of the Executive Directors will be deferring 50% of their bonus into shares for three years.

Our strong performance is also reflected in the performance of the 2012 long term share awards. These awards were subject to an EPS growth target range of RPI+4% per annum (20% vesting) to 12% per annum for Board members and RPI+4% per annum (50% vesting) to 12% per annum for other participants over the three year period to 31 December 2014. Our actual EPS growth over this period was 11.18% per annum which will result in the vesting of 67.2% of awards for Board members and 79.5% of awards for other participants. The value of these awards is reflected in the single figure remuneration table on page 103.

Implementation of Policy for 2015

A detailed review of Executive Directors' remuneration was undertaken during 2013 and revised arrangements resulting from that review applied for the first time during 2014. No significant changes to the pay structure will apply in 2015.

Base salaries

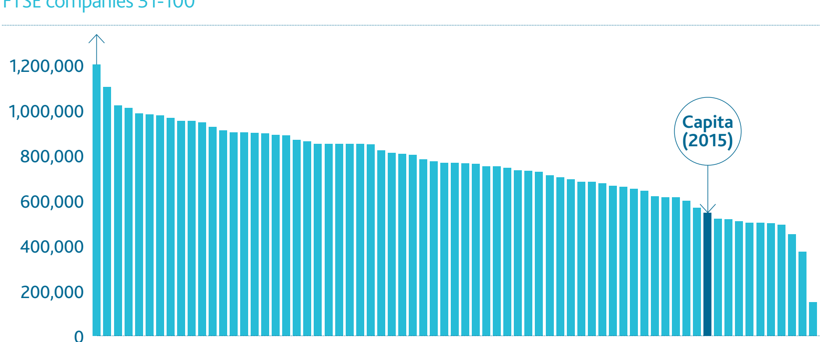
Salaries of the established Executive Directors were re-aligned with our intended lower market salary positioning in 2014. Salaries for these roles have, therefore, been increased by 2.4% for 2015 in line with the general UK workforce.

As explained in last year's remuneration report, salaries of those Directors who were relatively newly appointed to their role (Andy Parker as CEO and Dawn Marriott-Sims as COO) were set deliberately below the market lower quartile by the Committee on the understanding that, subject to their performance in role, their salaries would move closer to the market lower quartile in future years.

The Board has been pleased by the performance of both Andy Parker and Dawn Marriott-Sims and, therefore, Dawn Marriott-Sims' salary has been increased to £348,000, which brings her salary in line with the more established Directors and Andy Parker's salary has been increased to £550,000. As illustrated in the chart below, Andy Parker's salary remains one of the lowest amongst CEOs of similar sized FTSE companies and significantly below the market lower quartile.

CEO salaries

FTSE companies 31-100*



* Companies based on average market capitalisation in 3 months to 1 January 2015.

Directors' remuneration report continued

Incentives

No changes are proposed to the incentive structure for Executive Directors for 2015. However, we have amended the performance conditions applying to future LTIP awards for our senior staff so that they incorporate ROCE as well as EPS performance targets. This aligns the senior staff with the Executive Directors.

Shareholding guidelines

Our current policy is that Executive Directors should build up a shareholding worth at least 100% of salary. A table detailing this is shown on page 105. The Committee has considered increasing this level but, as the majority of the Executive Directors have been on the Board for a relatively short period, the Committee has agreed to defer a full review on this issue until the next Policy Report is introduced in 2017. All Executive Directors have five years after being appointed to achieve the 100% holding guidelines.

In summary, our Executive Directors' pay arrangements for 2015 will comprise the following elements:

Element of pay	Details	Performance conditions
Base salary	CEO £550,000 FD £380,000 Other Directors £348,000	n/a
Pension	5% of salary	n/a
Benefits	Private medical insurance, company car allowance, work travel and accommodation	n/a
Annual bonus	Maximum potential of 200% of salary, half paid in cash and half deferred in shares for three years	Underlying Group profit before tax
LTIP	Award of shares worth (at grant) 300% of salary for the CEO and 250% of salary for other Directors	75% based on EPS, 25% based on ROCE. Share price underpin.

Gordon Hurst, Group Finance Director, will continue to be paid £380,000 until his retirement. His successor, Nick Greatorex, will be paid £348,000 on appointment.

I hope you will find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of the resolution relating to remuneration at the AGM. As ever, the Committee welcomes any questions or comments from shareholders.

Carolyn Fairbairn
Chair of the Remuneration Committee
25 February 2015

Remuneration policy overview

At the AGM in May 2014, shareholders approved, with a 95% majority vote, the Remuneration Policy which sets out the Company's policy on the remuneration of Executive and Non-Executive Directors. The Remuneration Policy became effective from the conclusion of the AGM and can apply until 31 December 2017 unless a revised policy is approved by shareholders and comes into force before this date.

For the benefit of shareholders, we have reprinted the Remuneration Policy report. To ensure that the report is relevant within the context of this Directors' remuneration report, we have made textual changes, where appropriate, to reflect 2015 information and, in particular, to reflect the retirement of Paul Pindar. The original Remuneration Policy report, as approved by shareholders, can be found in last year's Director's remuneration report (a copy of which can be found in the Investors section of our website).

The Committee is responsible, on behalf of the Board, for establishing appropriate remuneration arrangements for the Executive Directors and other senior management in the Group.

In setting the Remuneration Policy for the Executive Directors, the Committee ensures that the arrangements are in the best interest of both the Group and its shareholders, by taking into account the following general principles:

- to ensure total remuneration packages are simple and fair in design so that they are valued by participants
- to ensure that total remuneration is highly performance orientated
- to balance performance-related pay between the achievement of financial performance objectives and delivering sustainable performance; creating a clear line of sight between performance and reward and providing a focus on sustained improvements in profitability and returns
- to provide a significant proportion of performance-linked pay in shares allowing senior management to build significant shareholding in the business and therefore aligning management with shareholders' interests and the Group's performance, without encouraging excessive risk taking.

Consideration of shareholder views

The Company is committed to maintaining good communications with investors. The Committee considers the AGM to be an opportunity to meet and communicate with investors, giving shareholders the opportunity to raise any issues or concerns they may have. In addition, the Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be proposed to the Policy.

Remuneration policy table

The following table sets out the key aspects of the Policy.

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Base Salaries	To attract and retain talent by ensuring base salaries are sufficiently competitive.	Normally reviewed annually in December with any changes usually effective in January. Review takes into account: - salaries in similar companies and comparably-sized companies - Remuneration Policy - economic climate - market conditions - Group performance - the role and responsibility of the individual Director - employee remuneration across the broader workforce. The Committee may award salary increases at other times of the year if it considers it to be appropriate.	There is no prescribed maximum monetary annual increase to base salaries The Committee is guided by the general increase for the broader workforce but on occasion may recognise an increase in certain circumstances such as, assumed additional responsibility, an increase in the scale or scope of the role the position of the salary in the lower quartile market positioning The Committee may award salary increases at other times of the year if it considers it to be appropriate.	Individual and business performance are considerations in setting base salaries.
Annual bonus and Deferred Annual Bonus (DAB) Plan	Performance measures are selected to focus Executives on delivery of the Group business plan for the financial year.	The bonus scheme is reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year Performance against targets is reviewed following completion of the final accounts for the period under review 50% of any bonus earned is delivered in shares deferred for three years under the DAB plan with the remainder delivered in cash or deferred shares at the Executive Director's discretion Dividends that accrue during the vesting period may be paid in cash or shares at the time of vesting Clawback provisions apply to DAB for overpayments due to material abnormal write offs of an exceptional basis not included in normal underlying profit before tax and EPS.	Maximum opportunity of 200% of salary.	Executive Directors' performance is measured over a one-year period relative to challenging targets for selected measures of Group financial performance 50% of the bonus will be paid at target performance and 100% for maximum performance. No payment will be made at below target performance.

Remuneration policy table continued

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Long term incentive plan (LTIP)	Designed to reward and retain Executives over the longer term while aligning their interests with those of shareholders To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance To encourage share ownership and provide further alignment with shareholders.	LTIP awards are usually granted in the form of nil cost options Award levels for each award are set by the Committee at a level appropriate, in the Committee's opinion, with the individual's performance and experience. Performance targets applying to LTIP awards are relevant to business plan priorities and aligned with shareholder interests Full details of the operation of the LTIP are set out on page 106 Vesting dependent on the achievement of performance conditions measured over a three-year period Performance targets are reviewed annually by the Committee and are set appropriate to the economic and political outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, whilst remaining realistic enough to motivate and incentivise management Clawback provisions apply to LTIP for overpayments due to material abnormal write offs of an exceptional basis not included in normal underlying profit before tax and EPS.	The plan limit in respect of a financial year is 165,000 shares or 300% of salary whichever is the higher. Each year the Committee will set the actual award limit.	Performance is measured over a three-year period relative to challenging targets for selected measures of Group financial performance Full details will be published in the annual report on remuneration for the relevant year 25% of the awards vest at a threshold vesting point rising to 100% vesting at a maximum vesting point.
Closed Plan – Deferred Annual Bonus Plan – Matching	Designed to reward and retain Executives over the longer term whilst aligning their interests with those of shareholders.	A matching award of shares linked to their deferred bonus shares and the matching award is subject to performance targets measured over a three-year period.	A maximum match of two shares for each gross share deferred under the Annual Bonus Plan. No further awards will be granted under the Plan.	An EPS growth target has been used for the plan.

Remuneration policy table continued

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Benefits	Designed to be consistent with benefits available to employees in the Group.	Benefits include pension provision or allowance, car allowance, private medical insurance, travel and property hire. Executive Directors can also participate in all-employee share plans Additional benefits may be provided in future, for example, re-location expenses, which are not currently provided.	Benefit provision varies between different Executive Directors Whilst there is no maximum level set by the Committee, benefits provision will be set at a level the Committee considers appropriate and be based on individual circumstances Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.	Not performance-related.
Pensions	Designed to be consistent with benefits available to employees in the Group.	Pension Contributions are paid into the Group's defined contribution scheme or as a cash allowance.	5% of salary either into Capita defined contribution scheme or as a non-pensionable cash allowance.	Not performance-related.
Non-Executive Directors' fee	Set to attract and retain Non-Executive Directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities through the provision of market competitive fees.	Reviewed periodically by the Board Fee levels set by reference to market rates, taking into account the individual's experience, responsibility, time commitments and the pay and conditions in the workforce No NEDs participate in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit.	As for the Executive Directors, there is no prescribed maximum monetary annual increase. The Committee is guided by the general increase for the broader workforce but on occasion may recognise an increase in certain circumstances such as, assumed additional responsibility or an increase in the scale or scope of the role An aggregate annual sum of £500,000 and increased only to take account of the effect of inflation (or as nearly thereto as is convenient) as measured by the Retail Price Index or such index as the Directors consider appropriate or such other amount as the Company may by ordinary resolution decide.	Not performance-related.

The annual bonus performance measures are focused on Group financial measures which are selected annually consistent with key priorities for the Group.

The LTIP performance measures, EPS, ROCE and share price performance, reward significant long term returns to shareholders and long term financial growth.

Targets are set on sliding scales that take account of internal strategic planning and external market expectations for the Company. Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial outperformance of challenging strategic plans approved at the start of each year.

The Committee operates long term incentive arrangements for the Executive Directors in accordance with their respective rules, the Listing Rules and the HMRC rules where relevant. The Committee, consistent with market practice and the scheme rules, retains discretion over a number of areas relating to the operation and administration of the plans. These include (but are not limited to) the following:

- who participates
- the timing of the grant of award and/or payment
- the size of an award (up to individual and plan limits) and/or a payment
- discretion relating to the measurement of performance in the event of a 'good leaver' scenario or a change of control or reconstruction of the Company
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends)
- the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

The aggregation of NED fees are determined within the Articles of Association. At the 2015 AGM, these will be presented for approval to shareholders and will be increased to £1m limit in aggregate.

Directors' remuneration report continued

Illustrations of the application of our Remuneration Policy

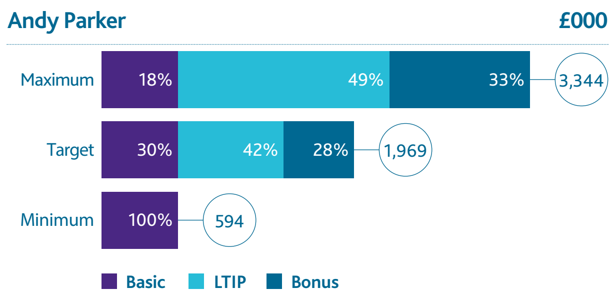
The value and composition of the Executive Directors' remuneration packages for the year ending 31 December 2015 at the minimum remuneration.

Remuneration with performance targets relating to the year ending 31 December 2015 and the remuneration with performance targets relating to more than one financial year under the Policy are set out in the charts below.

The graphs show an estimate of the remuneration that could be received by the Executive Directors under the Policy set out in this report.

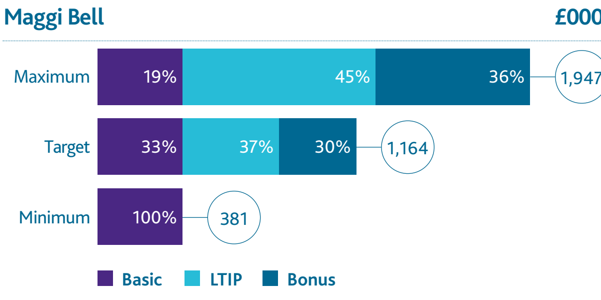
Each graph is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP. Gordon Hurst's chart reflects his remuneration as a Director in 2015 (i.e. for the period to 28 February 2015).

Andy Parker £000

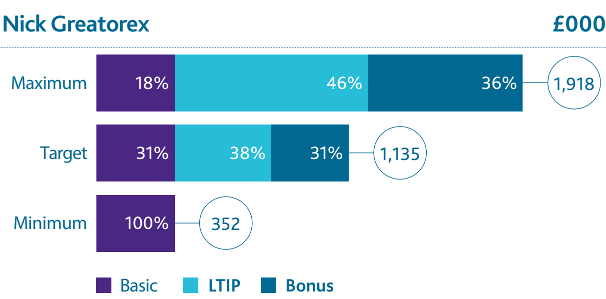


Gordon Hurst £000

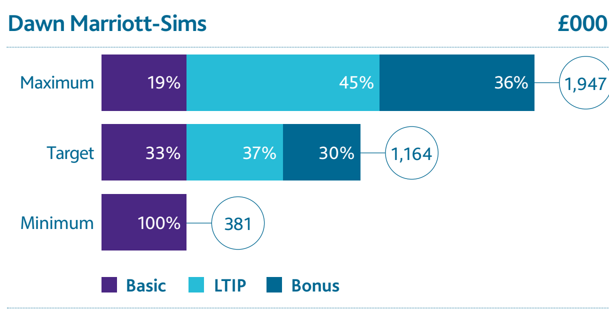
Maggi Bell £000



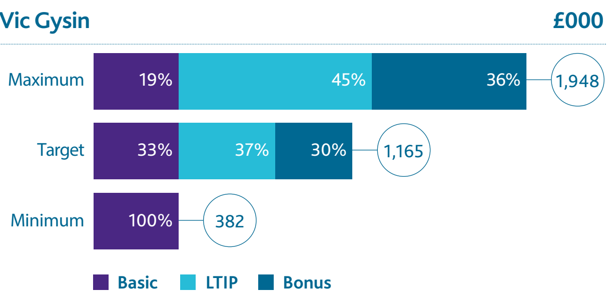
Nick Greatorex £000



Dawn Marriott-Sims £000



Vic Gysin £000



Notes

The scenarios in the above graphs are defined as follows:

	Minimum	Performance in line with Expectations (Target)	Maximum remuneration receivable (without allowing for share price appreciation)
Fixed Elements of Remuneration	Base salary as at 1 January 2015 Estimated value of benefits provided under the Remuneration Policy Pension contribution provided under the Remuneration Policy		
Annual bonus – payout shown as a maximum opportunity	0%	100% of salary	200% of salary
Long Term Incentive Plan – payout shown as a maximum opportunity	0%	50%	100% of award

The Committee considers pay and employment conditions of employees in the Group when determining Executive Directors' Remuneration Policy

When considering the Executive Directors' remuneration structure and levels, the Committee reviews base salaries and annual bonus arrangements for the management team, to ensure that there is a consistent approach across the Group. The annual bonus plan operates on a similar basis across the senior management team and aims to encourage a high level of employee share ownership. The key difference in the policy for Executive Directors is that remuneration is more heavily weighted towards long term variable pay than other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors.

The Committee did not formally consult with employees in respect of the design of the Executive Director remuneration policy, although the Committee will keep this under review.

Directors' recruitment and promotions

The Committee takes into account the need to attract, retain and motivate the best person for each position, while at the same time ensuring a close alignment between the interests of shareholders and management.

If a new Executive Director were appointed, the Committee would seek to align the remuneration package with the Policy approved by shareholders, including the maximum limit for the annual bonus and LTIP set out in the Policy table. However, flexibility would be retained to offer remuneration on appointment outside the Policy if the Committee believe it may be appropriate to make 'buy-out' awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer.

The Committee would look to replicate the arrangements being forfeited as closely as possible and in doing so, would take account of relevant factors including the nature of the remuneration and contractual terms, performance conditions and the time over which they would have vested or been paid. The Committee would seek to structure awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the Committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new Executive Directors in the year of recruitment shall be limited to the maximum limit allowed within the Policy table.

The initial notice period for a service contract may be up to 24 months, which is longer than the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

For an internal appointment, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may also agree that the Company will meet certain relocation and incidental expenses as it considers appropriate.

In the event of the appointment of a new non-Executive Director, remuneration arrangements will normally be in line with the structure set out in the Policy table for Non-Executive Directors. However, the Committee (or the Board as appropriate) may include any element listed in the Policy table above, or any other element which the Committee considers is appropriate given the particular circumstances, with due regard to the best interests of shareholders.

Directors' service agreements and payments for loss of office

The Committee regularly reviews the contractual terms of the service agreement to ensure these reflect best practice.

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

All Executive Directors' service agreements are terminable on 12-months' notice. In circumstances of termination on notice, the Committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The Committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the Director on garden leave for the notice period.

The annual bonus may be payable in respect of the period of the bonus plan year worked by the Director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. This will be at the discretion of the Remuneration Committee.

For the DAB deferred shares, all will vest on the date of leaving, or later in line with the vesting of the matching awards, as detailed below, other than in circumstances of dismissal for gross misconduct.

For entitlement to shares under the deferred annual bonus matching award and long term incentive arrangements, the rules contain discretionary provisions setting out the treatment of awards where a participant leaves for designated reasons (i.e. participants who leave early on account of injury, disability or ill health, death, a sale of their employer or business in which they were employed, statutory redundancy, retirement or any other reason at the discretion of the Committee). In these circumstances a participant's awards will not be forfeited on cessation of employment and instead will continue to vest on the normal vesting date or earlier at the discretion of the Committee, subject to the performance conditions attached to the relevant awards. The awards will, other than in exceptional circumstances, be scaled back pro rata for the period of the performance period worked by the Director. In the event of a change of control, all unvested awards under the deferred annual bonus and long term incentive arrangements would vest, to the extent that any performance conditions attached to the relevant awards have been achieved. The awards will, other than if the Committee determines otherwise, be scaled back pro rata for the proportion of the performance period worked by the Director prior to the change of control. For the DAB deferred shares, all will vest on the event of a change of control.

Non-Executive Directors' terms of engagement

Non-Executive Directors are appointed by letter of appointment for an initial period of three years. Each appointment is terminable by three-months' notice on either side. At the end of the initial period the appointment may be renewed by mutual consent, subject to annual re-election at the AGM.

The service agreements and Non-Executive Directors' letters of appointment are available for inspection during normal business hours at the Company's registered office, and available for inspection at the AGM.

Satisfaction of options

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

Dilution

All awards are made under plans that incorporate the overall dilution limit of 10% in 10 years. The estimated dilution from existing awards including executive and all-employee share awards is approximately 4.98% of the Company's share capital as at 31 December 2014.

In drafting this section of the Remuneration Report the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Committee may make minor amendments to the Policy set out above (for regulatory, exchange control, administrative or tax purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Annual report on remuneration

This part of the remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2015 AGM. The information on pages 92 to 108 has been audited as indicated.

Responsibilities of the Committee

The Committee is responsible for determining and agreeing with the Board the policy on Executive Directors' remuneration, including setting the over-arching principles, parameters and governance framework and determining the initial remuneration package of each Executive Director. In addition, the Committee monitors the structure and level of remuneration for the senior management team and is aware of pay and conditions in the workforce generally and it sets the Chairman's fee.

Members and activities of the Remuneration Committee

The members of the Remuneration Committee during 2014 were Martina King (Chair) until 12 May 2014, Carolyn Fairbairn (Chair) from 12 May 2014, Gillian Sheldon and Paul Bowtell. All members were Non-Executive Directors. None of the Committee members have day-to-day involvement with the business nor do they have any personal financial interest, except as shareholders, in the matters to be recommended. The Company Secretary acts as Secretary to the Committee. The number of formal meetings held and the attendance by each member is shown in the table on page 83. The Committee also held informal discussions as required.

External advice received

Deloitte LLP was, following a review, appointed by the Remuneration Committee during 2012 to provide advice on executive remuneration matters. During the year, the Committee received independent and objective advice from Deloitte primarily on market practice, clawback, disclosure within the accounts, shareholding guidelines and holding periods. Deloitte was paid £40,825 in fees during 2014 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the executive remuneration practice, has provided services to the Group in respect of tax, property, advice to internal audit and other ad hoc advisory projects during the year.

The fees were considered as appropriate for the work undertaken and all fees were disclosed prior to the work being undertaken. Where appropriate, fees were tendered with other providers to ensure that the fees were in line with market practice and standards.

The Committee also consulted with Andy Parker to provide further information to the Committee on the performance and proposed remuneration for the Executive Directors and other senior management, but not in relation to his own remuneration.

Shareholder voting at AGM

The 2014 Directors' remuneration report will be presented to shareholders at the AGM in May 2015. At the AGM in 2014, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2013 was:

AGM 2014	Votes cast 'For'	Votes cast 'Against'	Abstentions*
Remuneration report for the year ended 31 December 2013	439m	43m	1m
	91%	9%	–%
Remuneration Policy	456m	25m	1m
	95%	5%	–%

* A vote abstained is not a vote in law and is not counted in the calculation of the proportion of votes 'for' and 'against' as resolution.

Directors' remuneration report continued

Statement of implementation of the Remuneration Policy for 2015

The Remuneration Committee intends to implement the Remuneration Policy in 2015 on a consistent basis to how it was implemented in 2014.

Base salary

Our Remuneration Policy is for executive pay to be highly performance-orientated with fixed pay (salary and benefits) set around the market lower quartile. Following a review explained in last year's Remuneration Report, we adjusted the salaries of our established Executive Directors for 2014 so that they were more closely aligned with our intended salary market positioning. Accordingly, for those established Director roles we have increased salaries for 2015 by 2.4% in line with the general UK workforce.

For the Directors who were relatively newly appointed to their role (Andy Parker as CEO and Dawn Marriott-Sims as COO), we explained in last year's Remuneration Report that their salaries had been set deliberately below the market lower quartile in recognition of their relative inexperience in role. We also made clear that, subject to their performance in role, we would expect to increase their salaries closer to the market lower quartile in future years.

The Board has been pleased by the performance of both Andy Parker and Dawn Marriott-Sims and, therefore, has made salary decisions for 2015 that reflect this:

- Andy Parker's salary has been increased by 10% to £550,000. As illustrated in the chart in the Annual Statement from the Remuneration Committee Chair, his salary remains one of the lowest amongst CEOs of similar sized FTSE companies and significantly below the market lower quartile. The Committee intends, subject to performance in role, to continue to move Andy Parker's salary towards the intended market positioning in future years.
- Dawn Marriott-Sims' salary has been increased by 16% to £348,000. This brings her salary in line with the more established Capita Directors which we believe is appropriate given her strong performance in role over the past year.

Finally, during the year, the Committee determined the starting salary for Nick Greatorex who will become Group Finance Director on 1 March 2015. His salary has been set approximately 10% below the salary of the current Finance Director. Subject to performance in role, the Committee may look to increase his salary closer to the market lower quartile in future years.

Accordingly base salary for 2015 will be:

	Base salary from 1 January 2015
Andy Parker	£550,000
Gordon Hurst[1]	£380,000
Nick Greatorex[2]	£348,000
Maggi Bell	£348,000
Vic Gysin	£348,000
Dawn Marriott-Sims	£348,000

1 Gordon Hurst will step down as a Director and retire during 2015. His 2015 salary has been frozen at its 2014 level.

2 Nick Greatorex is appointed as Group Finance Director on 1 March 2015.

Fees for the Chairman and Non-Executive Directors

A summary of the fees for 2015 are as follows:

	Fee from 1 January 2015
Martin Bolland – Chairman	£200,000
Gillian Sheldon – Senior Independent Director	£74,000
Paul Bowtell – Audit & Risk Committee Chair	£63,500
Carolyn Fairbairn – Remuneration Committee Chair	£63,500
Andrew Williams	£63,500

Annual bonus for 2015

For 2015, the annual bonus opportunity will be 200% of base salary. The annual bonus will continue to be based against financial performance of underlying profit before tax of the Group.

The Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers to be commercially sensitive.

50% of the bonus payable will be paid in cash and 50% will be deferred into shares.

Long term incentive to be granted in 2015

For the LTIP award to be granted in 2015 Andy Parker will be awarded shares with a value at grant of 300% of salary and the other Executives 250% of salary. The performance conditions for this award will be:

Performance condition

EPS: 18.75% vests for 6% per annum EPS growth increasing to 75% vesting for 12% per annum EPS growth 2017 EPS compared to 2014 EPS

ROCE: 6.25% vests for average ROCE of 14% increasing to 25% vesting for average ROCE of 16%

Average ROCE over 2015, 2016 and 2017 financial years.

The performance period will run from 1 January 2015 to 31 December 2017.

Share price underpin: Capita's average share price at vesting must not be below the average share price at the date of grant.

A full definition of ROCE is shown on page 48 of the strategic report.

Directors' remuneration earned in 2014 – single figure table (Audited)

The table below summarises Directors' remuneration received in 2014.

Single figure remuneration

		Base salary and fees	Benefits	Pension or pension allowance	Annual bonus	LTIP	DAB – Match	Total long term incentives	Total remuneration
Martin Bolland	**2014**	**200,000**	**–**	**–**	**–**	**–**	**–**	**–**	**200,000**
	2013	200,000	–	–	–	–	–	–	200,000
Andy Parker	**2014**	**500,000**	**16,788**	**25,000**	**1,000,000**	**871,459**	**–**	**871,459**	**2,413,247**
	2013	297,917	31,485	14,896	487,500	460,378	185,375	645,753	1,477,551
Gordon Hurst	**2014**	**380,000**	**17,688**	**19,000**	**760,000**	**871,459**	**–**	**871,459**	**2,048,147**
	2013	290,000	17,675	14,500	435,000	690,566	268,322	958,888	1,716,063
Maggi Bell	**2014**	**340,000**	**15,408**	**16,732**	**680,000**	**871,459**	**–**	**871,459**	**1,923,599**
	2013	240,000	15,408	239	360,000	690,566	219,530	875,942	1,491,589
Vic Gysin	**2014**	**340,000**	**16,788**	**17,000**	**680,000**	**871,459**	**–**	**871,459**	**1,925,247**
	2013	260,000	89,346	13,000	390,000	460,378	185,375	679,907	1,432,253
Dawn Marriott-Sims	**2014**	**300,000**	**15,408**	**–**	**600,000**	**343,715**	**–**	**343,715**	**1,259,123**
	2013	–	–	–	–	–	–	–	–
Gillian Sheldon	**2014**	**72,000**	**–**	**–**	**–**	**–**	**–**	**-**	**72,000**
	2013	70,000	–	–	–	–	–	–	70,000
Paul Bowtell	**2014**	**62,000**	**–**	**–**	**–**	**–**	**–**	**–**	**62,000**
	2013	60,000	–	–	–	–	–	–	60,000
Carolyn Fairbairn	**2014**	**39,455**	**–**	**–**	**–**	**–**	**–**	**–**	**39,455**
	2013	–	–	–	–	–	–	–	–
Martina King	**2014**	**22,545**	**–**	**–**	**–**	**–**	**–**	**–**	**22,545**
	2013	60,000	–	–	–	–	–	–	60,000
Paul Pindar	**2014**	**65,000**	**2,670**	**4,875**	**–**	**–**	**–**	**–**	**72,545**
	2013	390,000	16,327	19,500	585,000	949,529	365,894	1,315,423	2,326,250

Base salary includes base salary plus fixed cash allowances which are a normal part of the fixed remuneration package and usual local practice. Benefits include private medical insurance, company car allowance, work travel and accommodation. These benefits are not pensionable.

The annual bonus for 2013 and 2014 was based on performance against financial target of underlying profit before tax.

Performance targets for the 2012 LTIP awards were RPI+4% per annum (20% vests) to 12% per annum (100% vests) for Board members and RPI+4% per annum (50% vests) to 12% per annum (100% vests) for other participants over the three-year period to 31 December 2014. Our actual EPS growth over this period was 11.18% per annum which will result in the vesting of 67.2% of awards for Board members at the time of grant and 79.5% of awards for other participants.

There were no DAB matching awards in 2012.

Price for long term incentives was £10.81 on the 31 December 2014.

The price used for the 2013 LTIP and DAB matching awards is the price on the date of exercise of £11.40.

Please note that no Director waived any fees or salary for 2014.

Directors' remuneration report continued

Annual bonus for 2014

The maximum annual bonus for the Executive Directors that could be earned in relation to 2014 performance was 200% of salary (unchanged from 2013).

The annual bonus that could be paid to Executive Directors in respect of 2014 performance was determined by a range of underlying profit before tax targets, subject to a Remuneration Committee review of non-underlying items within the accounts. 50% of the bonus was payable for achieving target performance with 100% payable for achieving the maximum target. No bonus would be paid for below target performance.

A maximum bonus for 2014 was earned as illustrated below. Before awarding this bonus, the Remuneration Committee gave due consideration to the non-underlying items within the accounts and determined that no adjustment was required to the bonus outturn. With the exception of Gordon Hurst, who is retiring and whose bonus will be paid wholly in cash, half of the bonus earned will be paid in cash in 2015 and the other half will be deferred into shares for three years under the DAB.

Performance measure	Proportion of bonus determined by measure	Maximum target for 2014	Actual 2014 performance	% of maximum payable
Underlying profit before tax	100%	£528m[1]	£535.7m	100%

For reference, the 2013 reported underlying profit before tax was £475m.

Share Plan Awards

LTIP and DAB matching awards were granted as nil cost options. LTIP Awards were awarded as a percentage of salary. DAB matching awards were granted at a maximum ratio of 2:1 to the annual bonus deferred by Directors in relation to the 2013 financial year. No further matching awards will be made. LTIP Awards are subject to EPS and ROCE performance over the three-year period to 31 December 2016 with LTIP awards also subject to a share price underpin. 25% of LTIP Awards vest for achieving threshold performance. DAB matching awards are subject to an EPS performance condition over the three-year period to 31 December 2016 with 33% vesting for achieving threshold performance. Full details of the performance conditions relating to these awards are outlined on page 106.

Long Term Incentive Awards awarded in 2014 (Audited)

Name of Director	LTIP award	Face value of LTIP award[1]	DAB matching award	Face value of DAB award[2]
Andy Parker	131,579	1,500,001	56,130	649,985
Gordon Hurst	83,333	949,996	50,086	579,996
Maggi Bell	74,561	849,995	41,450	479,991
Vic Gysin	74,561	849,995	67,356	779,982
Dawn Marriott-Sims	65,789	749,995	17,270	199,987

1 The price on grant was £11.40.

2 The price on grant was £11.58.

Directors Interests and Shareholding Guidelines (Audited)

Executive Directors are asked to hold 100% of salary in shares in the Company. This is built up over a period of five years from appointment.

The guidelines include shares held beneficially and also shares within the DAB that have been deferred over the three-year period. Share awards that are subject to performance conditions are not included.

Director	Beneficially held interests at 31 December 2014	Beneficially held interests at 31 December 2013	Interests in share incentive schemes, awarded without performance conditions at 31 December 2014	Interests in share incentive schemes, awarded without performance conditions at 31 December 2013	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2014	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2013	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2014	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2013	Percentage of shareholding target requirement at 31 December 2014 or date of retirement[3]
Martin Bolland	63,000	55,000	–	–	–	–	–	–	–
Andy Parker	13,392	–	55,994	46,452	483,567	403,642	–	–	100%
Gordon Hurst	25,358	25,158	59,044	61,767	441,421	468,217	–	–	100%
Maggi Bell	73,542	73,542	48,654	49,864	411,869	448,760	–	–	100%
Vic Gysin	–	–	89,537	74,382	493,635	459,502	–	–	100%
Dawn Marriott-Sims[1]	411	227	19,563	11,155	184,915	141,856	–	–	72%
Gillian Sheldon	1,000	–	–	–	–	–	–	–	–
Paul Bowtell	1,000	–	–	–	–	–	–	–	–
Carolyn Fairbairn[2]	–	–	–	–	–	–	–	–	–
Martina King	717	717	–	–	–	–	–	–	–
Paul Pindar*	856,613	856,613	46,144	82,703	742,087	1,054,213	–	–	100%

1 Appointed 1 January 2014.

2 Appointed 13 May 2014.

3 Based on salary from 1 January 2015.

* Paul Pindar retired on 28 February 2014 and details of his share options were fully disclosed in the report for the period to 31 December 2013. The figures shown are as at his retirement date.

Between the end of the financial year and 27 February 2015, Gordon Hurst and Dawn Marriott-Sims acquired 33 and 30 shares under the Capita Share Ownership Plan, increasing their beneficial interest in ordinary shares of the Company to 25,391 and 441 respectively.

Directors' remuneration report continued

Share plans (Audited)

Plan name: Deferred Annual Bonus (DAB) plan

The DAB is split into two elements:

Deferred award – this is the deferred element of an individual's bonus. Any deferral is made on a gross basis into Deferred Shares or as a net restricted share award. The Deferred Shares are held for a period of three years from the date of award. This part is not subject to performance conditions.

Matching award – this is awarded at a ratio of two shares for each gross share awarded under the deferred award. Matching awards vest after a three-year holding period to the extent to which performance criteria have been met.

It is not planned to award any further matching awards under this plan going forward.

Unvested DAB matching awards at 31 December 2014

	2012 award	2013 award	2014 award	Total
Andy Parker	No award made	55,858	56,130	111,988
Gordon Hurst	No award made	68,002	50,086	118,088
Maggi Bell	No award made	55,585	41,450	97,308
Vic Gysin	No award made	111,718	67,356	179,074
Dawn Marriott-Sims	–	21,856	17,270	39,126

Unvested DAB deferred awards at 31 December 2014

	2012 award	2013 award	2014 award	Total
Andy Parker	No award made	27,929	28,065	55,994
Gordon Hurst	No award made	34,001	25,043	59,044
Maggi Bell	No award made	27,929	20,725	48,654
Vic Gysin	No award made	55,859	33,678	89,537
Dawn Marriott-Sims	–	10,928	8,635	19,563

Performance criteria for matching awards

EPS growth of RPI + 4% per annum – 33% of the award vests.
EPS growth of RPI +12% per annum – 100% of award vests.
Straight-line vesting occurs between these points.

Plan name: Long Term Incentive Plan (2008 LTIP)

At the Annual General Meeting in 2008, the Long Term Incentive Plan (LTIP) was approved by shareholders. Under the plan rules the Committee can award up to the higher of three times salary or 165,000 shares.

The vesting of awards will depend on performance measured over a three-year period.

Unvested LTIP awards at 31 December 2014

	2012 award	2013 award	2014 award	Total
Andy Parker	120,000	120,000	131,579	371,579
Gordon Hurst	120,000	120,000	83,333	323,333
Maggi Bell	120,000	120,000	74,561	314,561
Vic Gysin	120,000	120,000	74,561	314,561
Dawn Marriott-Sims	40,000	40,000	65,789	145,789

Performance criteria

2012 and 2013
EPS growth of RPI + 4% per annum – 20% of the award vests.
EPS growth of RPI +12% per annum – 100% of the award vests.
Straight-line vesting occurs between these points.

2014
EPS: 18.75% vests for 6% per annum. EPS growth increasing to 75% vesting for 12% per annum EPS growth.
ROCE: 6.25% vests for average ROCE of 14% increasing to 25% vesting for average ROCE of 16%.

For all LTIP awards, Capita's average share price at vesting must not be below the average share price at the date of grant.

Executive Directors' service agreements

Details of the service agreements are set out below:

Executive Directors	Date of contract	Notice period
Andy Parker	10 January 2011	12 months
Nick Greatorex	1 January 2015	12 months
Gordon Hurst	17 December 2007	12 months
Maggi Bell	1 August 2008	12 months
Vic Gysin	10 January 2011	12 months
Dawn Marriott-Sims	1 January 2014	12 months

Non-Executive Directors' terms of engagement

In 2014, all Non-Executive Directors were considered to be independent of the Company.

Non-Executive Directors	Date of joining the Board	Expiry date of current three year appointment
Martin Bolland	1 March 2008	Not applicable
Gillian Sheldon	1 September 2012	31 August 2015
Paul Bowtell	28 June 2010	27 June 2016
Carolyn Fairbairn	12 May 2014	11 May 2017
Andrew Williams	1 January 2015	31 December 2017

Payments to former directors (Audited)

No payments (other than regular pension benefits and legacy share plan maturities which were commenced in previous years) were made during the year ended 31 December 2014 to any past Director of the Company.

Payments for loss of office (Audited)

No payments were made in respect of loss of office to Directors during the year ended 31 December 2014.

Percentage change in remuneration levels

The table below shows change in base compensation, benefits and annual bonus for the CEO in the 2014 financial year, compared to that for the average employees:

	Chief Executive Officer		All employees
	To 31 December 2014 £	% change 2014 v 2013	% change 2014 v 2013
Base compensation	500,000	28.2%	3.6%
Benefits	16,788	2.8%	6.2%
Bonus	1,000,000	70.9%	9.3%

This all employee information has been taken using only the UK employees as it was felt that using our overseas payroll would distort the information. The CEO base compensation relates to Paul Pindar and 2014 relates to Andy Parker following his remuneration review.

As outlined in last year's remuneration report, base salaries of Executive Directors were in increased in 2014 as part of a broader restructuring of their pay arrangements which also involved a reduction in their maximum potential total pay.

Directors' remuneration report continued

Relative importance of the spend on pay

The table below shows the spend on staff costs in the 2014 financial year, compared to dividends:

	2014 £m	2013 £m	% change
Staff costs	1,995	1,780	12.1
Dividends	180.5	159.1	13.5

Performance graph and CEO pay

Capita has maintained strong TSR performance over a sustained period.

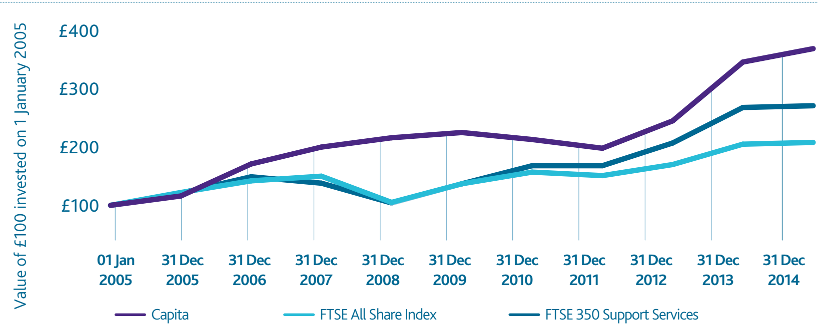
The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All-Share Index and the FTSE 350 Support Services Index assuming that all dividend income is reinvested.

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. Over the 10-year period to 31 December 2014, £100 invested in Capita on 1 January 2005 would be worth £369 at 31 December 2014 compared to £208 for an investment in the FTSE All-Share Index and £271 for an investment in the FTSE 350 Support Services Index.

The total remuneration figures for the CEO during the 2014 financial year are shown in the table opposite. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus payout and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

Capita vs. FTSE All Share Index and FTSE 350 Support Services Index

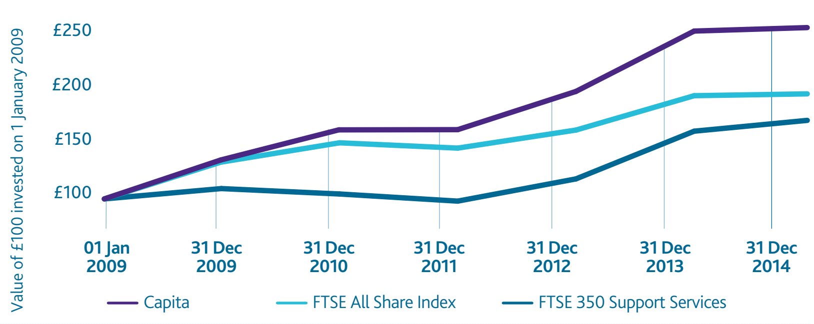
Value of investment of £100 on 1 January 2005



The following chart is the same comparison over a six-year period starting 1 January 2009.

Capita vs. FTSE All Share Index and FTSE 350 Support Services Index

Value of investment of £100 on 1 January 2009



Year	CEO – Single Figure of Total Remuneration	Annual bonus payout against maximum opportunity	Long term incentive vesting rates against maximum opportunity
2014	£2,413,247	100	67.2%
2013	£2,326,250	75	54.5%
2012	£2,038,233	100	47.75%
2011	£1,833,308	–	56.02%
2010	£1,399,675	100	88.567%
2009	£1,621,793	75	100%

Note – the vesting rates for the long term incentives are averaged between the LTIP and the DAB vesting rates for 2010–2013 and this is the actual vesting for the LTIP as there is no DAB maturity in 2014.

Note for 2010–2013 were based on Paul Pindar as CEO. The total period for 2014 is based on Andy Parker total remuneration.

Approval of the Directors' remuneration report

The Directors' remuneration report, including both the Remuneration Policy and the annual report on remuneration, was approved by the Board on 25 February 2015.

Carolyn Fairbairn
Chair of the Remuneration Committee
25 February 2015

Accounts

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

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Consolidated income statement

for the year ended 31 December 2014

		2014				2013			
			Non-underlying				Non-underlying		
	Notes	Underlying £m	Business disposal £m	Other non-underlying £m	Total £m	Underlying £m	Business disposal/ closure £m	Other non-underlying £m	Total £m
Continuing operations:									
Revenue	3	4,372.3	5.8	–	4,378.1	3,850.9	45.3	–	3,896.2
Cost of sales		(3,166.9)	(4.8)	–	(3,171.7)	(2,780.9)	(46.7)	–	(2,827.6)
Gross profit		1,205.4	1.0	–	1,206.4	1,070.0	(1.4)	–	1,068.6
Administrative expenses	4,5	(629.1)	(8.1)	(180.3)	(817.5)	(553.1)	(63.2)	(139.9)	(756.2)
Operating profit	7	576.3	(7.1)	(180.3)	388.9	516.9	(64.6)	(139.9)	312.4
Net finance costs	9	(40.6)	–	(38.1)	(78.7)	(41.9)	–	26.6	(15.3)
Loss on business disposal	4	–	(17.8)	–	(17.8)	–	(82.1)	–	(82.1)
Profit before tax		535.7	(24.9)	(218.4)	292.4	475.0	(146.7)	(113.3)	215.0
Income tax expense	10	(99.1)	1.8	44.8	(52.5)	(90.3)	14.8	32.4	(43.1)
Profit for the year		436.6	(23.1)	(173.6)	239.9	384.7	(131.9)	(80.9)	171.9
Attributable to:									
Owners of the Company		429.3	(23.1)	(170.3)	235.9	389.1	(131.9)	(80.0)	177.2
Non-controlling interests		7.3	–	(3.3)	4.0	(4.4)	–	(0.9)	(5.3)
		436.6	(23.1)	(173.6)	239.9	384.7	(131.9)	(80.9)	171.9
Earnings per share	11								
– basic		65.15p	(3.51)p	(25.85)p	35.79p	59.40p	(20.14)p	(12.21)p	27.05p
– diluted		64.58p	(3.48)p	(25.62)p	35.48p	58.71p	(19.90)p	(12.07)p	26.74p

Consolidated statement of comprehensive income

for the year ended 31 December 2014

		2014		2013	
	Notes	£m	£m	£m	£m
Profit for the year			239.9		171.9
Other comprehensive income/(expense):					
Items that will not be reclassified subsequently to profit or loss					
Actuarial (loss)/gain on defined benefit pension schemes	32	(67.2)		10.9	
Income tax effect	10	12.8		(9.2)	
			(54.4)		1.7
Items that will or may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations			(6.3)		0.3
Gain/(loss) on cash flow hedges arising during the year	26	5.6		(10.3)	
Reclassification adjustments for losses included in the income statement	26	6.0		2.6	
Income tax effect	10	(2.3)		0.9	
			9.3		(6.8)
			3.0		(6.5)
Other comprehensive expense for the year net of tax			(51.4)		(4.8)
Total comprehensive income for the year net of tax			188.5		167.1
Attributable to:					
Owners of the Company			184.5		172.4
Non-controlling interests			4.0		(5.3)
			188.5		167.1

Consolidated balance sheet

as at 31 December 2014

	Notes	2014 £m	2013 £m
Non-current assets			
Property, plant and equipment	13	**448.8**	419.8
Intangible assets	14	**2,619.4**	2,330.7
Financial assets	16	**178.2**	166.4
Deferred taxation	10	**12.5**	–
Trade and other receivables	18	**73.5**	77.6
		3,332.4	2,994.5
Current assets			
Financial assets	16	**14.7**	3.1
Funds assets	23	**118.2**	100.8
Trade and other receivables	18	**988.1**	892.9
Cash	19	**458.9**	610.8
		1,579.9	1,607.6
Total assets		**4,912.3**	4,602.1
Current liabilities			
Trade and other payables	20	**1,128.2**	1,023.5
Overdrafts	19	**429.8**	453.0
Financial liabilities	22	**164.8**	79.2
Funds liabilities	23	**118.2**	100.8
Provisions	25	**69.6**	62.2
Income tax payable		**42.6**	52.5
		1,953.2	1,771.2
Non-current liabilities			
Trade and other payables	20	**28.3**	26.5
Financial liabilities	22	**1,780.8**	1,729.9
Deferred taxation	10	**–**	7.1
Provisions	25	**42.0**	52.7
Employee benefits	32	**192.5**	118.4
		2,043.6	1,934.6
Total liabilities		**3,996.8**	3,705.8
Net assets		**915.5**	896.3
Capital and reserves			
Issued share capital	27	**13.8**	13.8
Share premium		**499.0**	491.2
Employee benefit trust & treasury shares	27	**(0.3)**	(0.4)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation reserve		**(4.3)**	2.0
Cash flow hedging reserve		**(14.8)**	(24.1)
Retained earnings		**354.7**	350.4
Equity attributable to owners of the Company		**849.9**	834.7
Non-controlling interests		**65.6**	61.6
Total equity		**915.5**	896.3

Included in aggregate financial liabilities is an amount of £1,306.8m (2013: £1,267.3m) 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 £185.4m included in financial assets and £0.6m included in financial liabilities (2013: £147.1m included in financial assets and £13.5m included in financial liabilities). Consequently, this gives an effective liability of £1,122.0m (2013: £1,133.7m).

The accounts were approved by the Board of Directors on 25 February 2015 and signed on its behalf by:

A Parker
Chief Executive

G M Hurst
Group Finance Director

Company registered number: 2081330

25 February 2015

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Share capital £m	Share premium £m	Employee benefit trust & treasury shares £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2013	13.8	470.4	(0.4)	1.8	408.1	1.7	(17.3)	878.1	–	878.1
Profit for the year	–	–	–	–	177.2	–	–	177.2	(5.3)	171.9
Other comprehensive expense	–	–	–	–	1.7	0.3	(6.8)	(4.8)	–	(4.8)
Total comprehensive income for the year	–	–	–	–	178.9	0.3	(6.8)	172.4	(5.3)	167.1
Share based payment	–	–	–	–	10.5	–	–	10.5	–	10.5
Deferred income tax relating to share based payments	–	–	–	–	8.0	–	–	8.0	–	8.0
Shares issued	–	20.8	–	–	–	–	–	20.8	–	20.8
Equity dividends paid	–	–	–	–	(159.1)	–	–	(159.1)	–	(159.1)
Put option of non-controlling interest	–	–	–	–	(96.0)	–	–	(96.0)	–	(96.0)
Acquisition of subsidiary with non-controlling interest	–	–	–	–	–	–	–	–	66.9	66.9
At 1 January 2014	13.8	491.2	(0.4)	1.8	350.4	2.0	(24.1)	834.7	61.6	896.3
Profit for the year	**–**	**–**	**–**	**–**	**235.9**	**–**	**–**	**235.9**	**4.0**	**239.9**
Other comprehensive expense	**–**	**–**	**–**	**–**	**(54.4)**	**(6.3)**	**9.3**	**(51.4)**	**–**	**(51.4)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**181.5**	**(6.3)**	**9.3**	**184.5**	**4.0**	**188.5**
Share based payment	**–**	**–**	**–**	**–**	**11.0**	**–**	**–**	**11.0**	**–**	**11.0**
Deferred income tax relating to share based payments	**–**	**–**	**–**	**–**	**5.7**	**–**	**–**	**5.7**	**–**	**5.7**
Shares issued	**–**	**7.8**	**0.1**	**–**	**–**	**–**	**–**	**7.9**	**–**	**7.9**
Equity dividends paid	**–**	**–**	**–**	**–**	**(180.5)**	**–**	**–**	**(180.5)**	**–**	**(180.5)**
Movement in put options held by non-controlling interests	**–**	**–**	**–**	**–**	**(13.4)**	**–**	**–**	**(13.4)**	**–**	**(13.4)**
At 31 December 2014	**13.8**	**499.0**	**(0.3)**	**1.8**	**354.7**	**(4.3)**	**(14.8)**	**849.9**	**65.6**	**915.5**

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 2$^{1}/_{15}$p ordinary shares.

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

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

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

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

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

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

Non-controlling interests (NCI) – This represents the equity in a subsidiary that is not attributable directly or indirectly to the parent company.

Consolidated cash flow statement

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Operating profit from continuing operations		**388.9**	312.4
Adjustments for non-cash items:			
Depreciation	13	**77.8**	74.1
Amortisation of intangible assets (treated as depreciation)	14	**9.1**	3.3
Share based payment expense	28	**11.0**	10.5
Employee benefits	32	**(1.0)**	2.2
Loss on sale of property, plant and equipment	7	**0.9**	2.1
Adjustment for non-underlying non-cash items			
Accelerated depreciation on business closure	13	**–**	6.0
Amortisation of intangible assets recognised on acquisition	14	**147.1**	122.2
Accelerated amortisation of intangible assets on business closure	14	**–**	0.2
Contingent consideration	5	**(9.4)**	1.7
Non-underlying provisions expense	25	**32.4**	43.2
Movement in underlying provisions (net)	25	**(17.4)**	(11.0)
Net movement in payables and receivables		**1.8**	(28.4)
Cash generated from operations before non-underlying cash items		**641.2**	538.5
Asset Services settlement provision cash paid	25	**(4.3)**	(1.2)
Disposal/closure provision cash paid	25	**(18.8)**	(0.2)
Cash generated from operations		**618.1**	537.1
Income tax paid		**(93.7)**	(52.9)
Net interest paid		**(35.6)**	(37.2)
Net cash inflow from operating activities		**488.8**	447.0
Cash flows from investing activities			
Purchase of property, plant and equipment	13	**(110.5)**	(128.2)
Purchase of intangible assets	14	**(40.8)**	(16.9)
Proceeds from sale of property, plant and equipment	7,13	**5.3**	1.2
Acquisition of public sector subsidiary partnerships	17	**–**	(38.9)
Debt repaid on the acquisition of public sector subsidiary partnerships	17	**–**	(9.1)
Acquisition of other subsidiary undertakings and businesses	5,17	**(325.5)**	(243.2)
Cash acquired with other subsidiary undertakings	17	**29.7**	15.8
Debt repaid on the acquisition of other subsidiaries	17	**(21.5)**	(5.1)
Cash disposed of with other subsidiary undertakings	4	**(2.8)**	(6.0)
Deferred consideration paid	17	**(35.5)**	–
Contingent consideration paid	17	**(9.2)**	(14.4)
Purchase of financial assets	16	**(1.0)**	(0.7)
Investment loan	16	**(5.0)**	0.2
Net cash outflow from investing activities		**(516.8)**	(445.3)
Cash flows from financing activities			
Issue of share capital	27	**7.9**	16.7
Dividends paid	12	**(180.5)**	(159.1)
Capital element of finance lease rental payments	9,29	**(4.9)**	(10.0)
Repayment of loan notes	29	**(10.2)**	–
Repayment of term debt	29	**–**	(185.0)
Repayment of bonds	29	**(10.6)**	(88.1)
Proceeds on issue of term debt	29	**100.0**	200.0
Proceeds on issue of bonds	29	**–**	75.0
Financing arrangement costs		**(0.3)**	–
Net cash (outflow)/inflow from financing activities		**(98.6)**	(150.5)
(Decrease)/increase in cash and cash equivalents		**(126.6)**	(148.8)
Cash and cash equivalents at the beginning of the period		**157.8**	306.7
Impact of movement in exchange rates	29	**(2.1)**	(0.1)
Cash and cash equivalents at 31 December		**29.1**	157.8
Cash and cash equivalents comprise:			
Cash at bank and in hand	19	**458.9**	610.8
Overdrafts	19	**(429.8)**	(453.0)
Total		**29.1**	157.8

Notes to the consolidated financial statements

1 Corporate information

The consolidated financial statements of Capita plc for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 25 February 2015. Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

The principal activities of the Group are given in the Strategic Report on pages 2 to 66.

2 Summary of significant accounting policies

Underlying profit

The Group separately presents intangible amortisation, acquisition contingent consideration movements, business disposals and closures, acquisition expenses, movements in the mark to market valuation of certain financial instruments, and specific non-recurring items in the income statement which, in the Directors' judgement, need to be disclosed separately (see notes 4 and 5) by virtue of their size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

Significant accounting judgements, estimates and assumptions

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- the measurement of revenue and resulting profit recognition – the Group makes use of estimates to determine revenue in respect of percentage complete/long term and construction contracts (see (e) and (f) below);
- the measurement of intangible assets other than goodwill in a business combination – this involves estimation of future cash flows and the selection of a suitable discount rate;
- the measurement and impairment of goodwill – the Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated utilising estimation of future cash flows and choosing a suitable discount rate (see note 15);
- the measurement of defined benefit obligations – this requires estimation of future changes in salaries and inflation, as well as mortality rates, future pension increases and the selection of a suitable discount rate (see note 32); and
- the measurement of provisions reflects management's assessment of the probable outflow of economic benefits resulting from an existing obligation. Provisions are calculated on a case by case basis and involve judgement as regards the final timing and quantum of any financial outlay – see note 25.

(a) Statement of compliance

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

The parent Company continues to apply UK GAAP in the preparation of its individual financial statements and these are contained on pages 167 to 174. In 2015, the parent company will be electing to apply FRS101 – Reduced Disclosure Framework in response to the change in financial reporting standards in the United Kingdom and Republic of Ireland. FRS101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

(b) Basis of preparation

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

In accordance with the FRC's 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.

(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. Adjustments are made to bring into line any dissimilar accounting policies that may exist between IFRS and local 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 and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the assets (including goodwill) disposed of. Losses applicable to the non-controlling interests in a subsidiary are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

2 Summary of significant accounting policies (continued)

(d) Changes in accounting policies

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

The Group has adopted the following new standards, amendments and interpretations with an initial date of application of 1 January 2014.

IAS 27 Amendment: Separate Financial Statements Reissued as IAS 27 Separate Financial Statements (as amended in 2011) previously IAS 27 Consolidated and Separate Financial Statements (2008). Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 Consolidated Financial Statements. There has been no material impact in relation to this amendment.

IAS 28 Amendment: Investments in Associates and Joint Ventures The objective of the proposed amendment is to provide additional guidance to IAS 28 on the application of the equity method, a method of accounting whereby the investment is initially recognised at cost and subsequently adjusted to reflect the change in the investor's share of the investee's net assets. Specifically, it aims to provide guidance on how investors should recognise their share of the changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee, and that are not distributions received ('other net asset changes'). There has been no impact as a result of applying this amendment.

IAS 32 Amendment: Offsetting Financial Assets and Financial Liabilities The amendment clarifies that a legal and enforceable right of set-off exists if that set-off is not contingent on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and that some gross settlement systems may be equivalent to net settlement. The impact of not having the right to enforce set-off in the circumstances described, would be to decrease the amounts that could be set-off; there is no impact on the Group as a result of applying the amended standard.

IFRS 10: Consolidated Financial Statements establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. An investor determines whether it is a parent by assessing whether it controls one or more investees. An investor considers all relevant facts and circumstances when assessing whether it controls an investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

The Group has conducted a review of its entities to ensure that control is exhibited. This exercise demonstrated that the Group had the requisite control over these entities. There were no previously unconsolidated entities. Thus the introduction of the new standard has not impacted these financial statements.

IFRS 10, IFRS 12, IAS 27 Amendments: Investment Entities provides an exception to the requirement to consolidate for entities that meet the definition of an 'Investment entity' under IFRS 10 Consolidated Financial Statements, i.e. one whose sole purpose is to make investments for capital appreciation, investment income, or both and who evaluate the performance of those investments on a fair value basis. The amendments also set out the disclosure requirements of such entities and requirements for their separate financial statements. As the Group has no component that would meet the definition as described above, there is no impact from these amendments.

IFRS 11: Joint Arrangements involves the assessment of an entity's rights and obligations in respect of a joint arrangement and how it accounts for those rights and obligations in accordance with the classification of that joint arrangement. The Group has made an assessment of each of its activities that might involve a joint arrangement and potentially result in a change in presentation. On conclusion of this exercise it was determined that there had been no change in presentation required by the new standard as no existing arrangements fall to be treated as proposed.

IFRS 12: Disclosure of Interests in Other Entities is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The standard applies to annual financial statements only. The impact of the standard has been to introduce extra disclosure into the annual financial statements describing the nature of the Group's interests in the types of entity referred to above.

IFRS 10, IFRS 11, IFRS 12 Amendments: Transition Guidance The amendments are intended to provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Consolidated Financial Statements, IFRS 11 Disclosure of Interests in Other Entities, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period". Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period.

IAS 36 Amendments: Recoverable Amount Disclosures for Non-Financial Assets These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required for IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period.

IAS 39 Amendments: Novation of Derivatives and Continuation of Hedge Accounting These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the Group as the Group has not novated any derivatives in the current or prior period.

IFRIC 21: Levies is effective for annual periods beginning or after 1 January 2014 and is applied retrospectively. It provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. However, it does not include income taxes, fines and other penalties, liabilities arising from emissions trading schemes and outflows within the scope of other Standards. There has been no impact on these financial statements as a result of adopting this interpretation.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

(e) Revenue

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

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

In all cases, revenue is recognised when the performance obligations have been performed or the significant risks and rewards of ownership are transferred to the buyer and it is probable that the economic benefits resulting from this performance will flow to the Group and the revenue can be reliably measured.

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

The following table illustrates revenue recognition policies predominately used in each operating segment. A description of these policies is included in (f) below.

Segment	Ongoing service contracts	Time & material contracts	Brownfield contracts	Percentage complete/long term contracts	IAS 11 Construction contracts	Greenfield contracts
Health & Wellbeing	•	•	•			•
IT Services	•	•	•	•	•	
Justice & Secure Services	•	•	•	•	•	
Professional Services	•	•	•			•
Property & Infrastructure	•	•	•	•		•
Workplace Services	•	•	•	•	•	•
Customer Management & International	•	•	•	•	•	
Insurance & Benefits Services	•	•	•			
Asset Services	•	•	•			

The Group has arrangements with some of its customers whereby it acts as an agent. Factors generally considered to determine whether the Group is a principal or an agent, are most notably whether it is the principal obligor to the client, it assumes credit and delivery risks, or it adds meaningful value to the supplier's service. Where the Group is acting as a principal, revenue represents the amounts billed for the services, including the associated costs. Where the Group is acting as an agent, revenue represents commissions receivable relating to the services and does not include the associated costs.

(f) Revenue recognition

The principal revenue recognition policies, beginning with the most widely used, are as follows:

Ongoing service contracts

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

Time and materials contracts

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

Brownfield contracts

A brownfield contract is one where there is a transfer of an existing operation to the Group. All costs incurred prior to service commencement are expensed as incurred and revenue represents income earned in respect of the services provided in accordance with the underlying principle in (e) above.

Greenfield contracts

A greenfield contract is one in which an entirely new service is being established for a client. Where non-refundable payments are received prior to full service commencement on the achievement of agreed contract delivery milestones, these are recognised as revenue when the associated milestone has been achieved. Direct incremental costs incurred prior to service commencement and reimbursable during the contract, excluding any overheads, are recognised on the balance sheet within receivables and amortised over the contract's life.

On commencement of service, delivery revenue represents income earned in respect of the services provided in accordance with the underlying principle in (e) above.

Percentage complete/long term contracts

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

If, on the review of the performance of the contract, a loss is anticipated then the full value of this expected loss to the end of the contract is booked immediately in the income statement.

Contracts with multiple components

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

In these contracts these activities are treated separately where appropriate, with the relevant accounting policy for revenue recognition, as detailed previously, being applied to each individual component.

IAS 11 Construction contracts

The Group constructs tangible and intangible assets for its customers, which are mainly intangible IT assets. In line with the requirements of IAS 11 gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

Contract renewals

On the renewal of existing contracts, the Group reviews the circumstances pertinent to each renewed contract to ensure that the correct revenue recognition policies are applied.

2 Summary of significant accounting policies (continued)

(g) Foreign currency translation

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

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

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

The Group has elected not to record cumulative translation differences arising prior to the transition date as permitted by IFRS 1 as at 31 December 2004. In utilising this exemption, all cumulative translation differences were deemed to be zero as at 1 January 2004 and all subsequent disposals shall exclude any translation differences arising prior to the date of transition.

(h) Property, plant and equipment

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

Freehold buildings and long leasehold property	– over 50 years
Leasehold improvements	– period of the lease
Plant and equipment	– 3 to 10 years

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

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

(i) Borrowing costs

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

The Group capitalises borrowing costs for all qualifying assets where construction commenced on or after 1 January 2009. 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 measures the non-controlling interests at the fair value of the acquiree's identifiable net assets at the date of acquisition.

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

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

For acquisitions where material changes were made to the fair value of the acquired assets and liabilities within the measurement period, the relevant account balances in the prior year are restated to reflect these changes in accordance with IFRS 3 requirements. Details of these changes are shown in note 17.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the income statement.

Goodwill is initially measured at cost being the excess of the aggregate of the fair value of the consideration transferred and the recognised amount of any non-controlling interests (plus the fair value of any existing equity interest) over the net recognised amount of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

Acquisitions between 1 January 2004 (IFRS transition date) and 1 January 2010

For acquisitions between the Group's IFRS transition date of 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Contingent consideration was recognised only where the Group had a present obligation and the economic outflow was more likely than not and a reliable estimate was determinable. Any subsequent adjustment to the contingent consideration was recognised as part of goodwill.

Acquisitions prior to 1 January 2004 (IFRS transition date)

On transition to the adoption of IFRS, the Group took advantage of the exemption allowed in IFRS 1 not to restate business combinations which took place prior to the date of transition. Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at this date (deemed cost). This goodwill had been amortised on a straight-line basis over its useful economic life (ranging from 5 to 20 years).

Goodwill

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set-off directly against reserves and does not get recycled through the income statement.

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

Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (Amended), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(k) Intangible assets

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Group is satisfied as to the technical, commercial and financial viability of individual projects. In these cases, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2013 or 2014. Amortisation is charged on assets with finite lives, this expense is taken to the income statement through the administrative expenses line item.

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

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

Intangible assets identified and recognised since transition to IFRS are profiled, on a straight-line basis, as follows:

Acquired intangible assets

- brands are amortised over their useful economic lives of between 5 and 10 years
- I.P., software and licences are amortised over their useful economic lives of between 5 and 20 years
- contracts and committed sales are amortised over their useful economic lives of between 1.5 and 15 years
- client lists and relationships are amortised over their useful economic lives of between 4 and 10 years.

Underlying intangible assets

- capitalised software development costs are amortised over their useful economic lives of between 5 and 15 years
- other intangibles are amortised over their useful economic lives of 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.

2 Summary of significant accounting policies (continued)

(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 less any directly attributable transaction costs.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method, except for instruments designated in fair value hedge relationships. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. The Group provides, on a discounted basis, for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

(r) Onerous contracts

The Group reviews its long term contracts to ensure that the expected economic benefits to be received are in excess of the unavoidable costs of meeting the obligations under the contract. The unavoidable costs are the lower of the net costs of termination or the costs of fulfilment of the contractual obligations. The Group recognises the excess of the unavoidable costs over economic benefits due to be received as an onerous contract provision.

(s) Pension schemes

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

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

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

Remeasurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and reflected immediately in retained earnings and will not be reclassified to the income statement. The Group determines the net interest expense/income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments.

Current and past service costs are charged to operating profit whilst the net interest cost is included within net finance costs.

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

The liability on the balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies (continued)

(t) Financial instruments

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

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

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

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

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

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

Put options on the shares of subsidiaries held by non-controlling interest shareholders that oblige the Group to purchase those shares for cash or another financial asset are recognised as a financial liability for the present value of the option exercise price. When the financial liability is recognised initially, that amount is reclassified from equity, and subsequently measured at amortised cost using the effective interest rate method. Changes in the carrying amount, including the accretion of interest, are recognised in equity.

On exercise of the put options, the Group will treat the transaction as the purchase of the non-controlling interest and will apply acquisition accounting as described in (j) Business Combinations and Goodwill – Acquisitions and disposal of non controlling interest.

(u) Leasing

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

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

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

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

(v) Income tax

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

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(w) Share based payments

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

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

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

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

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

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

The Group took 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.

(x) 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. These are effective for annual periods beginning on or after the date indicated:

	Effective date
International Accounting Standards (IAS/IFRSs)	
Endorsed by the EU:	
IAS 19 Amendments: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to IFRSs 2010 – 2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011– 2013 Cycle	1 July 2014
Not yet endorsed by the EU:	
IFRS 9 Financial Instruments	1 January 2018
IFRS 10 and IAS 28 Amendments: Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	1 January 2016
IFRS 11 Amendments: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IAS 16 and IAS 38 Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27 Amendments: Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements to IFRSs 2012– 2014 Cycle	1 January 2016
IFRS 10, IFRS 12 and IAS 28 Amendments: Investment Entities: Applying the Consolidation Exception	1 January 2016
IAS 1 Amendments: Disclosure Initiative	1 January 2016

The Group are conducting a review of IFRS 15 – Revenue from Contracts with Customers which is ongoing and is expected to be completed in 2015.

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

Notes to the consolidated financial statements continued

3 Revenue

Revenue disclosed in the income statement is analysed as follows:

	Notes	2014 Underlying £m	2014 Non-underlying £m	2014 Total £m	2013 Underlying £m	2013 Non-underlying £m	2013 Total £m
Rendering of services		**4,228.2**	**5.8**	**4,234.0**	3,740.4	45.3	3,785.7
Construction contracts	21	**144.1**	**–**	**144.1**	110.5	–	110.5
Revenue from operating activities		**4,372.3**	**5.8**	**4,378.1**	3,850.9	45.3	3,896.2
Finance revenue	9	**0.1**	**–**	**0.1**	0.2	–	0.2
Total revenue		**4,372.4**	**5.8**	**4,378.2**	3,851.1	45.3	3,896.4

4 Business disposal/closure

2014 business disposal

In the year the Group disposed of part of its occupational health business.

Income statement impact

	Trading £m	Non-trading disposal Cash £m	Non-trading disposal Non-cash £m	Non-trading disposal Total £m	Total £m
Revenue	**5.8**	**–**	**–**	**–**	**5.8**
Cost of sales	**(4.8)**	**–**	**–**	**–**	**(4.8)**
Gross profit	**1.0**	**–**	**–**	**–**	**1.0**
Administrative expenses	**(4.1)**	**(4.0)**	**–**	**(4.0)**	**(8.1)**
Operating loss	**(3.1)**	**(4.0)**	**–**	**(4.0)**	**(7.1)**
Loss on business disposal	**–**	**(2.8)**	**(15.0)**	**(17.8)**	**(17.8)**
Loss before tax	**(3.1)**	**(6.8)**	**(15.0)**	**(21.8)**	**(24.9)**
Taxation	**0.6**	**0.8**	**0.4**	**1.2**	**1.8**
Loss after tax	**(2.5)**	**(6.0)**	**(14.6)**	**(20.6)**	**(23.1)**

Trading revenue and costs represent the current year trading performance of this business.

Non-trading disposal and closure costs include the costs of exiting the occupational health business and the ongoing stranded costs such as property lease and redundancy payments. It is expected these expenses will be incurred over 2 years (see note 25).

The table below summarises the loss on disposal:

	£m
Property, plant and equipment	**0.5**
Cash	**2.8**
Intangible assets	**1.4**
Goodwill	**13.1**
Total net assets disposed of	**17.8**
Net proceeds received £nil	**–**
Loss on business disposal	**17.8**

4 Business disposal/closure (continued)

2013 Business disposal/closure

In 2013, the Group disposed of its insurance distribution business and announced the planned closure of its SIP (Self Invested Pensions) administration business.

Income statement impact

	Trading £m	Non-trading disposal/closure Cash £m	Non-cash £m	Total £m	Total £m
Revenue	45.3	–	–	–	45.3
Cost of sales	(46.7)	–	–	–	(46.7)
Gross loss	(1.4)	–	–	–	(1.4)
Administrative expenses	(13.0)	(41.5)	(8.7)	(50.2)	(63.2)
Operating loss	(14.4)	(41.5)	(8.7)	(50.2)	(64.6)
Loss on business disposal	–	(6.0)	(76.1)	(82.1)	(82.1)
Loss before tax	(14.4)	(47.5)	(84.8)	(132.3)	(146.7)
Taxation	3.2	9.0	2.6	11.6	14.8
Loss after tax	(11.2)	(38.5)	(82.2)	(120.7)	(131.9)

Trading revenue and costs represented the trading performance of these businesses.

Non-trading disposal and closure costs include the costs of running off the policies in the SIP business and the ongoing stranded costs such as property lease and redundancy payments. It is expected these expenses will be incurred over 2 years – see note 25.

Included within non-trading administrative expenses in the table above are:

	£m
Provision made in respect of disposal and closure costs	41.5
Assets written off used exclusively for the activities disposed of/closed	8.7
Total	50.2

The table below summarises the loss on disposal:

	£m
Property, plant and equipment	3.1
Trade and other receivables (excluding accrued income) due in less than 1 year	46.4
Accrued income due in less than 1 year	4.8
Cash	6.0
Trade payables due in less than 1 year	(5.0)
Other payables due in less than 1 year	(35.6)
Intangible assets	4.8
Goodwill	57.6
Total net assets disposed of	82.1
Net proceeds received of £1	–
Loss on business disposal	82.1

5 Administrative expenses

Included within administrative expenses in the non-underlying column are:

	Notes	2014 Cash in year £m	2014 Cash in future £m	2014 Non-cash £m	2014 Total £m	2013 Cash in year £m	2013 Cash in future £m	2013 Non-cash £m	2013 Total £m
Amortisation of acquired intangibles	14	–	–	147.1	147.1	–	–	122.2	122.2
Contingent consideration movements		–	–	(9.4)	(9.4)	–	–	1.7	1.7
Asset Services settlement provision	25	3.6	24.8	–	28.4	1.2	0.5	–	1.7
Professional fees regarding acquisitions		5.2	6.7	–	11.9	12.9	–	–	12.9
Stamp duty paid on acquisitions		2.3	–	–	2.3	1.4	–	–	1.4
Total		11.1	31.5	137.7	180.3	15.5	0.5	123.9	139.9

Notes to the consolidated financial statements continued

6 Segmental information

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the Strategic Report on pages 2 to 66. The information disclosed below represents 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 2014 and 2013. All operations are continuing.

Year ended 31 December 2014

	Health & Wellbeing £m	IT Services £m	Justice & Secure Services £m	Professional Services £m	Property & Infrastructure £m	Workplace Services £m	Asset Services £m	Customer Management & International £m	Insurance & Benefits Services £m	Total £m
Segment revenue										
– Underlying	183.8	611.7	608.0	678.5	363.7	740.0	296.1	690.6	725.9	4,898.3
Inter-segment revenue	(25.0)	(128.0)	(42.2)	(104.9)	(34.9)	(44.4)	(33.4)	(27.7)	(85.5)	(526.0)
Third party revenue	158.8	483.7	565.8	573.6	328.8	695.6	262.7	662.9	640.4	4,372.3
– Non-underlying trading[1]	5.8	–	–	–	–	–	–	–	–	5.8
Total segment revenue	164.6	483.7	565.8	573.6	328.8	695.6	262.7	662.9	640.4	4,378.1
Segment result										
– Underlying										
Result after depreciation	15.7	38.6	78.7	135.1	27.2	93.1	64.4	77.3	57.2	587.3
Share based payment	(0.4)	(0.6)	(1.5)	(2.8)	(0.3)	(1.6)	(0.8)	(1.3)	(1.7)	(11.0)
Underlying trading result	15.3	38.0	77.2	132.3	26.9	91.5	63.6	76.0	55.5	576.3
– Non-underlying trading[1]	(3.1)	–	–	–	–	–	–	–	–	(3.1)
Total trading result	12.2	38.0	77.2	132.3	26.9	91.5	63.6	76.0	55.5	573.2
Non-trading										
Business disposal/closure costs										(4.0)
Intangible amortisation										(147.1)
Acquisition costs										(14.2)
Contingent consideration movements										9.4
Asset Services settlement provision										(28.4)
Operating profit										388.9
Net finance costs (note 9)										(78.7)
Loss on business disposal										(17.8)
Profit before tax										292.4
Income tax expense										(52.5)
Profit for the year										239.9

1 See note 4.

6 Segmental information (continued)

Other segment information

Net assets by segment	Health & Wellbeing £m	IT Services £m	Justice & Secure Services £m	Professional Services £m	Property & Infrastructure £m	Workplace Services £m	Asset Services £m	Customer Management & International £m	Insurance & Benefits Services £m	Total £m
Segment assets	98.9	114.8	104.3	60.0	73.9	168.9	79.8	96.8	106.4	903.8
Segment liabilities	(2.9)	(60.1)	(28.0)	(85.4)	(13.9)	(12.8)	(5.6)	(24.2)	(31.0)	(263.9)
Matched Creditors[2]	–	–	–	–	–	(45.5)	(25.3)	–	(1.3)	(72.1)
Net allocated assets	96.0	54.7	76.3	(25.4)	60.0	110.6	48.9	72.6	74.1	567.8
Unallocated assets – see reconciliation table below										4,008.5
Unallocated liabilities – see reconciliation table below										(3,660.8)
Total net assets										915.5
Capital expenditure										
Tangible assets	0.6	18.2	15.6	5.5	2.3	8.0	18.7	8.9	32.7	110.5
Depreciation charge	4.6	18.5	8.3	4.7	2.3	5.0	7.7	7.0	28.8	86.9
Intangible assets	1.1	119.5	187.2	9.4	12.8	19.0	19.1	79.2	5.0	452.3
Intangible amortisation	5.6	25.3	38.5	12.8	4.9	19.9	6.9	17.4	15.8	147.1

Reconciliation of segment assets and liabilities

	2014 £m	2013 £m
Segment assets	903.8	825.8
Unallocated assets		
Property, plant and equipment	448.8	419.8
Intangible assets	2,619.4	2,330.7
Financial assets	192.9	169.5
Prepayments	127.8	105.0
Funds assets	118.2	100.8
Other receivables	30.0	39.7
Deferred tax	12.5	–
Cash	458.9	610.8
	4,008.5	3,776.3
Total assets	4,912.3	4,602.1
Segment liabilities (including matched creditors)	336.0	311.3
Unallocated liabilities		
Financial liabilities	1,945.6	1,809.1
Funds liabilities	118.2	100.8
Trade payables (excluding matched creditors)[2]	150.3	140.8
Other payables	25.1	32.5
Other taxes and social security	165.4	149.8
Accruals	479.7	415.6
Provisions	111.6	114.9
Income tax payable	42.6	52.5
Employee benefits	192.5	118.4
Deferred tax	–	7.1
Overdrafts	429.8	453.0
	3,660.8	3,394.5
Total liabilities	3,996.8	3,705.8

2 Matched creditors represent those creditors where there is a related trade receivable balance and where, as a result, management report the net position.

Notes to the consolidated financial statements continued

6 Segmental information (continued)

The table below presents revenue by geographical location, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

Revenue	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	**4,662.6**	**241.5**	**4,904.1**
Inter-segment revenue	**(433.9)**	**(92.1)**	**(526.0)**
Third party revenue	**4,228.7**	**149.4**	**4,378.1**
Other segment information			
Trade receivables, accrued income & construction contracts	**865.3**	**38.5**	**903.8**
Unallocated assets	**3,796.6**	**211.9**	**4,008.5**
Total assets	**4,661.9**	**250.4**	**4,912.3**
Capital expenditure			
Tangible assets	**100.4**	**10.1**	**110.5**
Intangible assets	**444.2**	**8.1**	**452.3**

Year ended 31 December 2013

	Health & Wellbeing £m	IT Services £m	Justice & Secure Services £m	Professional Services £m	Property & Infrastructure £m	Workplace Services £m	Asset Services £m	Customer Management & International £m	Insurance & Benefits Services £m	Total £m
Segment revenue										
– Underlying	187.6	590.4	425.4	666.8	297.3	597.5	257.3	518.9	762.2	4,303.4
Inter-segment revenue	(24.8)	(132.8)	(14.0)	(110.3)	(20.0)	(31.5)	(10.7)	(13.2)	(95.2)	(452.5)
Third party revenue	162.8	457.6	411.4	556.5	277.3	566.0	246.6	505.7	667.0	3,850.9
– Non-underlying trading[1]	–	–	–	–	–	–	–	–	45.3	45.3
Total segment revenue	162.8	457.6	411.4	556.5	277.3	566.0	246.6	505.7	712.3	3,896.2
Segment result										
– Underlying										
Result after depreciation	22.2	25.5	66.4	131.2	16.0	75.0	65.3	64.1	61.7	527.4
Share based payment	(0.4)	(0.5)	(1.5)	(2.7)	(0.3)	(1.5)	(1.3)	(1.2)	(1.1)	(10.5)
Underlying trading result	21.8	25.0	64.9	128.5	15.7	73.5	64.0	62.9	60.6	516.9
– Non-underlying trading[1]									(14.4)	(14.4)
Total trading result	21.8	25.0	64.9	128.5	15.7	73.5	64.0	62.9	46.2	502.5
Non-trading										
Business disposal/closure costs										(50.2)
Intangible amortisation										(122.2)
Acquisition costs										(14.3)
Contingent consideration movements										(1.7)
Asset Services settlement provision										(1.7)
Operating profit										312.4
Net finance costs (note 9)										(15.3)
Loss on business disposal										(82.1)
Profit before tax										215.0
Income tax expense										(43.1)
Profit for the year										171.9

1 See note 4.

6 Segmental information (continued)

Other segment information

Net assets by segment	Health & Wellbeing £m	IT Services £m	Justice & Secure Services £m	Professional Services £m	Property & Infrastructure £m	Workplace Services £m	Asset Services £m	Customer Management & International £m	Insurance & Benefits Services £m	Total £m
Segment assets	98.3	108.7	80.1	63.6	68.3	134.2	70.1	76.9	125.6	825.8
Segment liabilities	(4.9)	(44.8)	(25.2)	(99.8)	(19.6)	(13.4)	(8.7)	(9.8)	(31.3)	(257.5)
Matched Creditors[2]	–	–	–	–	–	(32.8)	(21.0)	–	–	(53.8)
Net allocated assets	93.4	63.9	54.9	(36.2)	48.7	88.0	40.4	67.1	94.3	514.5
Unallocated assets – see reconciliation table above										3,776.3
Unallocated liabilities – see reconciliation table above										(3,394.5)
Total net assets										896.3
Capital expenditure										
Tangible assets	26.8	20.9	8.7	7.8	1.5	7.1	17.6	10.7	27.1	128.2
Depreciation charge	2.6	14.6	5.7	4.3	2.3	3.6	6.8	5.9	31.6	77.4
Intangible assets	14.2	87.7	110.3	86.6	–	208.5	1.0	62.6	1.7	572.6
Intangible amortisation	12.5	19.9	21.5	10.7	3.6	13.0	8.6	13.4	19.0	122.2

2 Matched creditors represent those creditors where there is a related trade receivable balance and where, as a result, management report the net position.

The table below presents revenue by geographical location, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

Revenue	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	4,159.4	189.3	4,348.7
Inter-segment revenue	(389.7)	(62.8)	(452.5)
Third party revenue	3,769.7	126.5	3,896.2
Other segment information			
Trade receivables, accrued income & construction contracts	792.0	33.8	825.8
Unallocated assets	3,605.4	170.9	3,776.3
Total assets	4,397.4	204.7	4,602.1
Capital expenditure			
Tangible assets	120.2	8.0	128.2
Intangible assets	571.5	1.1	572.6

2 Matched creditors represent those creditors where there is a related trade receivable balance and where, as a result, management report the net position.

7 Operating profit

This is stated after charging/(crediting):

	Notes	**2014 £m**	2013 £m
Employee benefits expense	8	**1,994.8**	1,780.9
Amortisation of intangible assets (as shown in the non-underlying column)	14	**147.1**	122.2
Depreciation	13	**77.8**	74.1
Accelerated depreciation on business closure	13	**–**	6.0
Amortisation of other intangible assets (treated as depreciation)[1]	14	**9.1**	3.3
Accelerated amortisation on business closure	14	**–**	0.2
Loss on sale of property, plant and equipment		**0.9**	2.1
Minimum lease payments recognised as an operating lease expense		**126.4**	98.5
Foreign exchange differences		**(5.8)**	(3.2)

1 Included within operating activities before amortisation.

Notes to the consolidated financial statements continued

7 Operating profit (continued)

Fees payable to the Company's auditor and its associates in respect of:	2014 £m	2013 £m
Audit and audit-related services		
The audit of the Company and Group financial statements	**2.0**	1.7
The audit of the financial statements of subsidiaries of the Company	**0.8**	0.6
Total audit and audit-related services	**2.8**	2.3
Non-audit services		
Taxation compliance services	**0.2**	0.2
Taxation advisory services	**0.2**	0.2
Services related to corporate finance transactions	**1.1**	0.5
Other assurance services	**0.2**	0.4
Total non-audit services	**1.7**	1.3
Total audit and non-audit services	**4.5**	3.6

The amounts included in the above table relate to fees payable to KPMG LLP (2013: KPMG Audit Plc) and its associates.

8 Employee benefits expense

	Notes	2014 £m	2013 £m
Wages and salaries		**1,719.9**	1,527.6
Social security costs		**159.9**	147.3
Pension costs	32	**104.0**	95.5
Share based payments	28	**11.0**	10.5
		1,994.8	1,780.9

The average number of employees during the year was made up as follows:	2014 Number	2013 Number
Sales	**2,269**	1,954
Administration	**6,357**	5,658
Operations	**54,284**	48,856
	62,910	56,468

The detail of Directors' remuneration is contained within the Directors' remuneration report on pages 92 to 108.

9 Net finance costs

	Notes	2014 £m	2013 £m
Bank interest receivable		**(0.1)**	(0.1)
Other interest receivable		**–**	(0.1)
Interest receivable		**(0.1)**	(0.2)
Bonds		**24.2**	22.9
Fixed rate interest rate swaps – realised		**1.8**	6.0
Finance lease		**0.6**	0.8
Bank loans and overdrafts		**9.1**	7.7
Net interest cost on defined benefit pension schemes	32	**5.0**	4.7
Interest payable		**40.7**	42.1
Underlying net finance costs		**40.6**	41.9
Fixed rate interest rate swaps – mark to market	26	**36.7**	(26.3)
Discount unwind on public sector subsidiary partnership payment	26	**2.1**	–
Non-designated foreign exchange forward contracts – mark to market		**(0.4)**	1.2
Derivatives' counterparty credit risk adjustment – mark to market[1]	26	**(0.1)**	(1.4)
Derivatives' own credit risk adjustment – mark to market		**(0.2)**	(0.1)
Non-underlying net finance costs		**38.1**	(26.6)
Total net finance costs		**78.7**	15.3

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

10 Income tax

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

Consolidated income statement	2014 £m	2013 £m
Current income tax		
Current income tax charge	**90.3**	75.4
Adjustment in respect of prior years	**(8.7)**	(15.7)
Deferred income tax		
Origination and reversal of temporary differences	**(29.1)**	(15.6)
Adjustment in respect of prior years	**–**	(1.0)
	52.5	43.1

Consolidated statement of comprehensive income	2014 £m	2013 £m
Deferred income tax on cash flow hedges	**2.3**	**(0.9)**
Deferred income tax movement in relation to actuarial losses on defined benefit plans	**(12.8)**	**9.2**
	(10.5)	**8.3**

Consolidated statement of changes in equity	2014 £m	2013 £m
Deferred income tax movement in relation to share based payment	**5.7**	8.0

The reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2014 and 2013 is as follows:

	2014 £m	2013 £m
Profit before tax	**292.4**	215.0
Notional charge at UK corporation tax rate of 21.5% (2013: 23.25%)	**62.9**	50.0
Adjustments in respect of current income tax of prior years	**(8.7)**	(15.7)
Adjustments in respect of deferred tax of prior years	**–**	(1.0)
Non-deductible expenses	**1.6**	21.4
Impact of changes in statutory tax rates	**2.1**	(7.8)
Attributable to lower tax rates in overseas jurisdictions	**(4.7)**	(3.8)
Brought forward losses utilised, previously unrecognised	**(0.7)**	–
At the effective tax rate of 17.95% (2013: 20.05%)	**52.5**	43.1
Total tax expense reported in the income statement	**52.5**	43.1

The tax charge for the year ended 31 December 2014 was £52.5m (2013: charge of £43.1m) and is after a prior year net credit of £8.7m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an effective tax rate of 17.95% (2013: 20.05%). The effective tax rate on underlying profit is 18.5% (2013: 19.0%).

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2014 £m	2013 £m	2014 £m	2013 £m
Deferred tax liabilities				
Accelerated capital allowances	**(2.0)**	(2.5)	**3.3**	(5.0)
Fair value adjustments on acquisition	**(69.7)**	(64.5)	**(26.1)**	(29.5)
	(71.7)	(67.0)		
Deferred tax assets				
Share based payments	**18.7**	16.3	**3.3**	2.5
Pension schemes' liability	**22.3**	11.9	**2.3**	3.8
Provisions	**26.7**	20.2	**(4.5)**	4.4
Losses available for offset against future taxable income	**–**	–	**–**	–
Mark to market movement on currency swaps	**0.1**	0.1	**–**	0.3
Cash flow swaps	**12.7**	5.3	**(9.7)**	7.7
Cash flow hedges	**3.7**	6.1	**2.3**	(0.8)
	84.2	59.9		
Net deferred tax (liability)/asset	**12.5**	(7.1)		
Deferred income tax credit			**(29.1)**	(16.6)

The Group has tax losses and other temporary differences of £117.4m (2013: £93.8m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose, of which £90.9m 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 £117.4m (2013: £93.8m) of these losses or other temporary differences, as their recoverability is uncertain.

The UK corporation tax rate will decrease from 21% to 20% from 1 April 2015. The deferred tax balance has been adjusted to reflect this change.

Notes to the consolidated financial statements continued

11 Earnings per share

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

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

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

	2014 £m	2013 £m
Net profit attributable to ordinary equity holders of the parent from operations	**235.9**	177.2

	2014 Number million	2013 Number million
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**658.9**	655.1
Dilutive potential ordinary shares:		
Employee share options	**5.9**	7.7
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**664.8**	662.8

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

The following additional earnings per share figures are calculated based on underlying earnings attributable to ordinary equity holders of the parent of £429.3m (2013: £389.1m) and, after non-underlying costs, earnings of £235.9m (2013: £177.2m). They are included as they provide a better understanding of the underlying trading performance of the Group.

		2014 p	2013 p
Basic earnings per share	– underlying	**65.15**	59.40
	– after non-underlying	**35.79**	27.05
Diluted earnings per share	– underlying	**64.58**	58.71
	– after non-underlying	**35.48**	26.74

12 Dividends paid and proposed

	2014 £m	2013 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2013 paid: 17.8p per share (2012: 15.6p per share)	**117.2**	102.1
Interim for 2014 paid: 9.6p per share (2013: 8.7p per share)	**63.3**	57.0
	180.5	159.1
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2014: 19.6p per share (2013: 17.8p per share)	**129.6**	116.9

13 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
As at 1 January 2013	68.6	458.4	527.0
Subsidiaries acquired	4.5	25.4	29.9
Subsidiaries disposed	(1.0)	(5.7)	(6.7)
Additions	19.0	109.2	128.2
Disposals	(6.2)	(15.5)	(21.7)
Asset retirements	(3.6)	(78.8)	(82.4)
Re-class to intangible assets	–	(11.4)	(11.4)
Exchange movement	(0.9)	(2.0)	(2.9)
As at 31 December 2013	80.4	479.6	560.0
Subsidiaries acquired	**1.3**	**10.3**	**11.6**
Disposal of business	**(0.8)**	**(0.7)**	**(1.5)**
Additions	**19.9**	**90.6**	**110.5**
Disposals	**(2.2)**	**(19.4)**	**(21.6)**
Asset retirements	**(3.5)**	**(29.1)**	**(32.6)**
Re-class to/from intangible assets (net)	**–**	**(7.5)**	**(7.5)**
Exchange movement	**–**	**(1.7)**	**(1.7)**
As at 31 December 2014	**95.1**	**522.1**	**617.2**
Depreciation and impairment			
At 1 January 2013	28.0	140.7	168.7
Provided during the year – underlying	9.8	64.3	74.1
Accelerated depreciation – business closure	3.6	2.4	6.0
Subsidiaries disposed	(1.0)	(2.6)	(3.6)
Disposals	(5.7)	(12.7)	(18.4)
Asset retirements	(3.6)	(78.8)	(82.4)
Re-class to intangible assets	–	(2.1)	(2.1)
Exchange movement	(0.6)	(1.5)	(2.1)
At 31 December 2013	30.5	109.7	140.2
Provided during the year – underlying	**10.1**	**67.7**	**77.8**
Disposal of business	**(0.5)**	**(0.5)**	**(1.0)**
Disposals	**(1.0)**	**(14.4)**	**(15.4)**
Asset retirements	**(3.5)**	**(29.1)**	**(32.6)**
Re-class to/from intangible assets (net)	**–**	**(0.2)**	**(0.2)**
Exchange movement	**0.3**	**(0.7)**	**(0.4)**
At 31 December 2014	**35.9**	**132.5**	**168.4**
Net book value			
At 1 January 2013	40.6	317.7	358.3
At 31 December 2013	49.9	369.9	419.8
At 31 December 2014	**59.2**	**389.6**	**448.8**

The net book value of plant and machinery includes an amount of £11.9m (2013: £17.3m) in respect of assets held under finance leases.

Notes to the consolidated financial statements continued

14 Intangible assets

	Acquired intangible assets						Underlying intangible assets		
	Brands £m	IP, software and licences £m	Contracts and committed sales £m	Client lists and relationships £m	Goodwill £m	Sub-total £m	Capitalised software development £m	Other intangibles £m	Total £m
Cost									
At 1 January 2013	30.6	22.1	95.3	415.3	1,690.6	2,253.9	4.7	9.1	2,267.7
Subsidiaries acquired	12.4	61.3	30.7	186.2	265.1	555.7	–	–	555.7
Subsidiaries disposed	(2.7)	–	(0.2)	(22.3)	(57.6)	(82.8)	(0.3)	–	(83.1)
Additions	–	–	–	–	–	–	11.7	5.2	16.9
Asset retirement	–	–	(3.8)	–	–	(3.8)	–	–	(3.8)
Re-class from property, plant and equipment	–	–	–	–	–	–	10.2	1.2	11.4
Exchange movement	–	–	0.1	–	–	0.1	–	–	0.1
At 31 December 2013	40.3	83.4	122.1	579.2	1,898.1	2,723.1	26.3	15.5	2,764.9
Subsidiaries acquired	**6.9**	**20.0**	**7.5**	**125.2**	**251.4**	**411.0**	**–**	**–**	**411.0**
Business disposal	**(1.3)**	**–**	**–**	**(4.5)**	**(13.1)**	**(18.9)**	**(0.2)**	**–**	**(19.1)**
Additions	**–**	**–**	**–**	**–**	**–**	**–**	**24.9**	**15.9**	**40.8**
Re-class from property, plant and equipment	**–**	**–**	**–**	**–**	**–**	**–**	**8.4**	**(0.9)**	**7.5**
Fair value adjustments in 2014 relating to 2013 acquisitions	**–**	**–**	**–**	**–**	**0.5**	**0.5**	**–**	**–**	**0.5**
Exchange movement	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**	**(0.2)**
At 31 December 2014	**45.9**	**103.4**	**129.6**	**699.9**	**2,136.9**	**3,115.7**	**59.3**	**30.4**	**3,205.4**
Amortisation and impairment						–			–
At 1 January 2013	21.1	13.7	44.0	193.6	57.1	329.5	0.5	0.9	330.9
Subsidiaries disposed	(2.6)	–	(0.2)	(17.8)	–	(20.6)	(0.1)	–	(20.7)
Amortisation treated as depreciation	–	–	–	–	–	–	0.9	2.4	3.3
Accelerated amortisation – business closure	–	–	0.2	–	–	0.2	–	–	0.2
Other amortisation	5.8	3.0	16.8	96.6	–	122.2	–	–	122.2
Re-class from property, plant and equipment	–	–	–	–	–	–	2.0	0.1	2.1
Asset retirement	–	–	(3.8)	–	–	(3.8)	–	–	(3.8)
At 31 December 2013	24.3	16.7	57.0	272.4	57.1	427.5	3.3	3.4	434.2
Business disposal	**(1.1)**	**–**	**–**	**(3.5)**	**–**	**(4.6)**	**–**	**–**	**(4.6)**
Amortisation treated as depreciation	**–**	**–**	**–**	**–**	**–**	**–**	**7.1**	**2.0**	**9.1**
Other amortisation	**6.3**	**8.4**	**17.7**	**114.7**	**–**	**147.1**	**–**	**–**	**147.1**
Re-class from property, plant and equipment	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
At 31 December 2014	**29.5**	**25.1**	**74.7**	**383.6**	**57.1**	**570.0**	**10.6**	**5.4**	**586.0**
Net book value									
At 1 January 2013	9.5	8.4	51.3	221.7	1,633.5	1,924.4	4.2	8.2	1,936.8
At 31 December 2013	16.0	66.7	65.1	306.8	1,841.0	2,295.6	23.0	12.1	2,330.7
At 31 December 2014	**16.4**	**78.3**	**54.9**	**316.3**	**2,079.8**	**2,545.7**	**48.7**	**25.0**	**2,619.4**

15 Goodwill

Goodwill acquired through business combinations has been allocated to Cash-Generating Units (CGUs), for impairment testing purposes, on the basis of the expected benefit that will accrue to the individual CGU through synergies realised from the acquisition and integration with the Group as a whole. These represent the lowest level within the Group at which goodwill can be allocated on a reasonable and consistent basis.

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

	Insurance Services £m	Life & Pension Services £m	Customer Management & International £m	IT & Software Services £m	Secure Information Solutions £m	Property Services £m	Workplace Services £m	Balance of non-significant CGUs £m	Total £m
2014									
Goodwill	**230.8**	**184.4**	**127.4**	**280.5**	**263.1**	**120.1**	**172.5**	**701.0**	**2,079.8**
2013									
Goodwill	230.8	135.5	88.5	214.2	144.6	97.3	158.1	772.0	1,841.0

Disclosed above are the significant groups of CGUs identified, with the remaining CGUs included in the 'non-significant balance' column. The non-significant CGUs included within the balance do not individually exceed 5% of the Group's total goodwill balance. The number of CGUs identified for 2014 has increased due to acquisitions.

The markets in which the Group operates and the services which we provide are discussed in 'Operating in growth markets' starting on page 14 and divisional performance starting on page 56. The key drivers are commonplace across these markets, the need to drive efficiencies and to deliver more for less as well as changes in technology that can be fostered to achieve these goals as well as regulatory change.

The impairment test is completed through a 3-stage process:

- the net assets of each CGU are identified, and allocated, including the goodwill above;
- the key assumptions are identified, which are used to determine the recoverable amount per CGU to be measured against the net assets; and
- the final stage is to identify any shortfall, where the carrying value of net assets falls below the recoverable amount determined through the value in use calculation – this would then be disclosed as an impairment of that CGU in the income statement.

The calculation of the recoverable amount is based on a value in use calculation, i.e. how much cash will be generated over the life of the asset net of any capital expenditure needed to maintain and grow those cash flows. This recoverable amount is established using a number of key assumptions which drive the result.

The starting point is the identification of the cash flows per CGU based on the latest 1 year budget forecast approved by senior management. The budget is a result of a bottom-up business planning process which identifies each of a number of factors that lead to what is expected to be a challenging but achievable forecast.

The major factors considered per CGU are:

- continuation of past performance;
- is the market in which the CGU operates experiencing change or further competitive pressures;
- the route to new sales and renewals is clearly understood;
- management resource is suitable to achieve and deliver the budget; and
- the efficiency of the cost base and whether it is at the correct level for the business currently and supportive of future growth.

These plans are delivered and presented to the Board for their review and acceptance and are challenged to ensure they are realistic and achievable.

This budget is then extrapolated for a further 4 years, before applying an appropriate terminal value. The resulting cash flows are then discounted at a rate that recognises their CGU specific characteristics and is based on the overall Group Weighted Average Cost of Capital (WACC).

The major assumptions in this extrapolation are:

- growth rates applied to the year 1 cash flows;
- the pre-tax discount rates to be used; and
- the long term growth rate used for the terminal value calculation.

Growth rates

The growth rate assumptions are particular to each CGU and are derived from external research across the breadth of our markets which is provided by Ovum, a third party provider. These projections are reviewed by senior management to ensure that they are in line with their understanding of the markets in which they operate.

Notes to the consolidated financial statements continued

15 Goodwill (continued)

Pre-tax discount rates

The Group WACC is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our post-tax WACC assuming a risk-free rate of 1.75%, a market risk premium of 8.3% and a Beta of 0.8. These assumptions are based on publicly available sources.

The Group's post-tax weighted average cost of capital (WACC) of 7.2% (2013: 7.7%) has been used as a basis for calculating the discount rate used for each CGU. This has been done by adjusting the rate, where appropriate, to reflect the risks specific to the market in which the CGU operates.

The rate adjustment takes into account the relative risks in the business through adjustment to the risk premium and the weighting of the funding levels provided per CGU, whilst retaining a constant cost of debt.

Long term growth rates

The terminal value included in the calculation is based on the Year 5 cash flow and the pre-tax discount rate for the CGU adjusted for a long term growth factor which is set at an estimate of the long term rate of inflation of 2.3% (2013: 2.0%).

Below is a table setting out the growth and pre-tax discount rates used in the calculations described above.

	Third party market growth rates		Pre-tax WACC	
	2014	2013	**2014**	2013
Insurance Services	**4.4%**	4.3%	**9.6%**	10.4%
Life & Pensions Services	**5.4%**	5.5%	**9.6%**	10.0%
Customer Management & International	**3.8%**	3.6%	**8.4%**	9.9%
IT & Software Services	**3.1%**	2.2%	**9.0%**	10.1%
Secure Information Solutions	**4.6%**	4.6%	**9.5%**	10.0%
Property Services	**2.1%**	1.3%	**10.2%**	11.1%
Workplace Services	**4.6%**	4.8%	**8.7%**	9.4%
Non-significant CGUs	**Range 2.1% – 6.8%**	Range 1.3% – 7.1%	**Range 7.9% – 12.4%**	Range 7.9% – 11.5%

Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them and also on the selection of the discount and growth rates to be applied. In order to gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios have been run to measure which CGUs are the most susceptible to an impairment should the assumptions used be varied.

The sensitivity analysis on CGU cash flows has been carried out using a 100bps increase in the pre-tax discount rate, a 100bps reduction in growth rates, and a 100bps decrease in CGU year 1 operating margins (between 2% and 33% impact on margins depending on CGU).

The Insurance Services CGU, as reported previously, is the most sensitive to a change in a single or combination of assumptions and therefore profit and profit margins are closely monitored. The headroom in the base case impairment test is £4m; the key assumptions driving this are stated above, together with a year 1 operating margin of 13%.The resulting impairment of goodwill of a 100bps adverse change in: the operating margin is £13m; the discount rate £4m; the growth rates applied £4m; and a combination of a 100bps adverse change in all, would be £41m.

Other smaller CGUs, which are not material to the Group, are also sensitive to changes in the assumptions, but movements would be immaterial. Management continue to monitor closely the performance of all CGUs.

In conclusion, other than disclosed above with regard to Insurance Services and some smaller CGUs, management believe there is no reasonably possible change in the underlying assumptions that would result in a CGU becoming impaired and thus recognising an impairment charge in the Income Statement.

16 Financial assets

Current financial assets	2014 £m	2013 £m
Investment loan[1]	–	0.3
Available-for-sale assets[2]	0.2	–
Currency swaps in relation to US$ denominated bonds[3]	13.2	2.7
Non-designated foreign exchange forward contracts	–	0.1
Interest rate swaps in relation to GBP denominated bonds[3]	1.3	–
	14.7	3.1

Non-current financial assets	2014 £m	2013 £m
Investment loan[1]	5.0	20.5
Available-for-sale assets[2]	2.3	1.5
Currency swaps in relation to US$ denominated bonds[3]	162.4	136.7
Interest rate swaps in relation to GBP denominated bonds[3]	8.5	7.7
	178.2	166.4

1 The 2014 investment loan represents a funding arrangement with Optima Legal (Scotland) Limited. During 2014, the Group acquired Optima Legal Services Limited (excluding the Scottish practice) and thereby extinguished the previous funding arrangement (£20.8m) and leaving the new funding arrangement with Optima Legal (Scotland Limited).

2 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.

3 The currency swaps are used to hedge the exposure to interest rate and currency fluctuations on the Group's US$ denominated bonds. The change in the fair value of the underlying bonds due to changes in interest and currency rates is offset by the fair value of the currency swaps recognised above. The interest rate swaps are used to hedge the fair value of the Group's GBP denominated bonds and the change in the fair value of the underlying bonds due to changes in interest rates is equivalent to the fair value of the interest rate swaps recognised above. Details of the interest rate swaps, currency swaps and cash flow hedges are contained in note 26.

17 Business combinations

2014 acquisitions

The Group made a number of acquisitions in 2014 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition £m
Property, plant and equipment	11.6
Intangible assets	159.6
Trade and other receivables due in less than one year	56.6
Trade and other receivables due in more than one year	3.1
Corporation tax	(1.7)
Cash and cash equivalents	29.7
Trade and other payables (excluding accruals) due in less than one year	(43.6)
Accruals due in less than one year	(32.7)
Provisions	(4.8)
Deferred tax	(26.4)
Employee benefits liability	(2.9)
Finance leases	(0.1)
Long term debt	(21.5)
Net assets	126.9
Goodwill arising on acquisition	251.4
	378.3
Discharged by:	
Cash	318.0
Contingent consideration accrued	39.5
Investment loan note (see note 16)	20.8
	378.3

Notes to the consolidated financial statements continued

17 Business combinations (continued)

In all cases, 100% of the ordinary share capital was acquired. The companies acquired have been mainly in the areas of IT and software, customer and debt management, legal and property services, resourcing, communication and printing which complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition, during the year the Group settled £35.5m of deferred consideration and £9.2m of contingent consideration payments with regard to previous acquisitions, all of which had been accrued.

Where this can be determined, the acquired subsidiaries contributed £14.3m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2014, Group revenue would have been an estimated £4,459.0m and Group profit before tax would have been an estimated £299.2m. In determining these amounts, management 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 2014. During the year, some of the acquired businesses have been completely integrated into the existing business of the Group and therefore their post-acquisition performance cannot be determined. Post-acquisition underlying earnings benefited from a £3.9m favourable litigation settlement, for which a provision was included in the balance sheet at the date of acquisition in 2013.

Goodwill has arisen on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses, particularly from synergies, and the capabilities of the acquired workforce. The total amount of goodwill recognised in the period that is expected to be deductible for tax purposes is £9.6m (2013: £103.4m).

The fair value exercise has been completed on a provisional basis for acquisitions made in 2014. The Group will complete this review in 2015 though any adjustment to the carrying value is likely to be insignificant to the individual acquisition. In total, the effect of revisions made to fair value adjustments in the current year that had been determined provisionally at the immediately preceding balance sheet date increases goodwill by £0.5m.

Contingent consideration

In respect of the acquisitions made in 2014, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash on their payment date on achieving the relevant target. The range of the additional consideration payment is estimated to be between £30m and £48m. The Group has included £39.5m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation.

Acquisition related costs

The Group incurred acquisition related costs of £14.2m related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in non-underlying administrative expenses in the Group's consolidated income statement.

2013 acquisitions

The Group made a number of acquisitions in 2013 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		
	Public sector subsidiary partnership £m	Other acquisitions £m	Total £m
Property, plant and equipment	3.9	26.0	29.9
Intangible assets	102.7	187.9	290.6
Trade and other receivables due in less than one year	3.7	50.9	54.6
Trade and other receivables due in more than one year	–	14.4	14.4
Corporation tax	–	1.6	1.6
Cash and cash equivalents	–	15.8	15.8
Trade and other payables (excluding accruals) due in less than one year	(2.5)	(41.5)	(44.0)
Accruals due in less than one year	(10.9)	(54.9)	(65.8)
Trade and other payables due in more than one year	–	(2.0)	(2.0)
Provisions	–	(5.5)	(5.5)
Deferred tax	(2.1)	(23.0)	(25.1)
Employee benefits liability	–	(14.3)	(14.3)
Finance leases	–	(25.4)	(25.4)
Public sector subsidiary partnership payment (note 22)	(52.2)	–	(52.2)
Long term debt	(9.1)	(5.1)	(14.2)
Net assets	33.5	124.9	158.4
Goodwill arising on acquisition	103.0	162.1	265.1
Non-controlling interest	(66.9)	–	(66.9)
	69.6	287.0	356.6
Discharged by:			
Cash	34.9	232.9	267.8
Equity instruments	–	4.1	4.1
Contingent consideration accrued	–	26.1	26.1
Deferred consideration accrued	34.7	23.9	58.6
	69.6	287.0	356.6

17 Business combinations (continued)

'Public sector subsidiary partnerships' represent a controlling interest in 3 public sector acquisitions in 2013, being 51% of the ordinary share capital of Axelos Limited and Entrust Support Services Limited and 100% of the ordinary share capital of Fire Service College Limited.

In all other cases, 100% of the ordinary share capital was acquired. The companies acquired have been mainly in the areas of IT and software, debt management, analytics, gamification, change management, and learning and development which complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition, during the year the Group settled contingent consideration payments with regard to previous acquisitions amounting to £14.4m, all of which had been accrued.

Where this can be determined, the acquired subsidiaries contributed £11.6m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2013, Group revenue would have been an estimated £3,981.5m and Group profit before tax would have been an estimated £221.4m. 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 2013. During the year, some of the acquired businesses have been completely integrated into the existing business of the Group and therefore their post-acquisition performance cannot be determined.

Goodwill has arisen on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses, particularly from synergies, the capabilities of the acquired workforce, and commercialisation of formerly public sector assets. The total amount of goodwill recognised in the period that is expected to be deductible for tax purposes is £103.4m (2012: £3.3m).

The fair value exercise had been completed on a provisional basis for acquisitions made in 2013. The Group completed this review in 2014.

In total, the effect of revisions made to fair value adjustments in 2013 that had been determined provisionally at the immediately preceding balance sheet date increased goodwill by £16.9m, largely relating to an onerous contract provision acquired with the Reliance Secure Task Management acquisition. These revisions increased provisions by £14.1m, accruals by £2.3m, and other payables by £0.5m as at 31 December 2012.

Contingent consideration

In respect of the acquisitions made in 2013, 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 range of the additional consideration payment is estimated to be between £20m and £35m. The Group has included £26.1m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation.

Deferred consideration

In respect of the acquisitions made in 2013, the Group has agreed to pay the vendors additional consideration post the year-end period. The Group has included £58.6m as deferred consideration, which represents its fair value at the acquisition date.

Acquisition related costs

The Group incurred acquisition related costs of £14.3m related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in non-underlying administrative expenses in the Group's consolidated income statement.

Notes to the consolidated financial statements continued

18 Trade and other receivables

Current	2014 £m	2013 £m
Trade receivables	**449.5**	449.6
Other receivables	**22.0**	37.2
Gross amounts due from customers on construction contracts	**48.2**	61.5
Accrued income	**361.7**	257.0
Prepayments	**106.7**	87.6
	988.1	892.9

Non-current	2014 £m	2013 £m
Other receivables	**8.0**	2.5
Accrued income	**44.4**	57.7
Prepayments	**21.1**	17.4
	73.5	77.6

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

At 31 December 2014, trade receivables at a nominal value of £19.5m (2013: £17.8m) were impaired and fully provided for.

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

	2014 £m	2013 £m
At 1 January	**17.8**	21.8
Utilised	**(2.4)**	(0.7)
Provided/(released in) year (net)	**0.5**	(5.2)
Business disposal/closure	**–**	(0.4)
Provisions acquired	**3.6**	2.3
At 31 December	**19.5**	17.8

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

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	0–3 months £m	4–6 months £m	7–12 months £m	More than 12 months £m
2014	**449.5**	**347.3**	**84.5**	**17.7**	**–**	**–**
2013	449.6	337.6	98.7	13.3	–	–

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

19 Cash, cash equivalents and overdrafts

	2014 £m	2013 £m
Cash at bank and in hand	**458.9**	610.8
Overdrafts	**(429.8)**	(453.0)
	29.1	157.8

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

Included in cash at bank are balances held in the Group's notional cash pools under which the bank has the right of offset against overdrafts – see note 26.

20 Trade and other payables

Current	2014 £m	2013 £m
Trade payables	**222.4**	194.6
Other payables	**22.9**	31.2
Other taxes and social security	**165.4**	149.8
Accruals	**479.5**	414.9
Deferred income	**238.0**	233.0
	1,128.2	1,023.5
Non-current		
Other payables	**2.2**	1.3
Accruals	**0.2**	0.7
Deferred income	**25.9**	24.5
	28.3	26.5

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

21 Construction contracts

The Group constructs assets for its customers, which are mainly IT in nature. In line with the requirements of IAS 11, gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

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

	2014 £m	2013 £m
Contract revenue recognised in relation to construction contracts in the year	**144.1**	110.5
Aggregate costs incurred and recognised profits (less losses) to date	**207.7**	102.4
Gross amount due from customers for construction contracts	**48.2**	61.5

22 Financial liabilities

Current	Notes	2014 £m	2013 £m
Contingent consideration		**33.3**	8.8
Deferred consideration		**11.6**	35.5
Obligations under finance leases	24	**5.1**	4.9
Unsecured loan notes		**0.1**	10.2
Cash flow hedges		**3.1**	6.0
Non-designated foreign exchange forward contracts		**0.3**	0.5
Bonds		**110.9**	13.1
Fixed rate interest rate swaps		**0.4**	0.2
		164.8	79.2
Non-current			
Contingent consideration		**22.8**	26.4
Deferred consideration		**11.5**	23.1
Public sector subsidiary partnership payment		**54.3**	52.2
Put options of non-controlling interests		**109.4**	96.0
Obligations under finance leases	24	**6.8**	12.4
Unsecured loan notes		**0.1**	0.2
Bonds		**1,195.9**	1,254.2
Term loan		**300.0**	200.0
Cash flow hedges		**15.6**	24.2
Non-designated foreign exchange forward contracts		**0.9**	1.3
Currency swaps in relation to US$ denominated bonds		**0.6**	13.5
Fixed rate interest rate swaps		**62.9**	26.4
		1,780.8	1,729.9

The aggregate bond value stated above of £1,306.8m (net of issue costs) includes a fair value adjustment for interest rate and currency risk of the bonds at 31 December 2014. 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.

In 2014, the Group repaid bonds which reached maturity. These were US$21.0m 2007 Series A bonds (GBP equivalent: £10.6m). In addition in 2014, the Group agreed to issue a total of US$228.5m and £67.0m of new bonds in January 2015 and US$65.0m and £30.0m in April 2015.

The issue costs incurred on the issue of the bonds during the year amounted to £0.3m (2013: £0.1m). Issue costs on the bonds are spread over the life of the bonds to their maturity. The unamortised balance of issue costs and amendment costs at the year-end totalled £2.2m (2013: £1.4m).

In 2014, the Group entered into an additional £100m 5-year term loan and extended the maturity of the existing £200m Term Loan to January 2016. Both loans bear interest at floating rates linked to LIBOR.

The obligations under finance leases are secured on the assets being financed. The bonds and loan notes are unsecured. The loan notes issued are non-interest bearing.

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by Axelos Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in years 4 to 10. This payment is funded by Axelos Limited and is contingent on the profits of that business. The net of tax cash cost has been estimated at £35.9m. Following these payments, the new company will pay profits to the partners according to their stake in the business.

The non-controlling shareholders of Axelos Limited and Entrust Support Services Limited have an option to put their shareholding to Capita Plc. Accordingly, a liability of £109.4m (2013: £96.0m) has been recognised and a corresponding entry has been recorded against retained earnings. The options are exercisable only after a period of 5 years has elapsed.

Following a refinancing in 2014 the Group has available to it a committed Revolving Credit Facility of £600m maturing in August 2019, of which £nil was drawn down as at 31 December 2014 (2013: £nil drawn down on a £425m Revolving Credit Facility). These funds are available for the Group's immediate use.

Notes to the consolidated financial statements continued

22 Financial liabilities (continued)

The Group has issued (or will issue) guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005[3]				
Series B	0.525 above 6m GBP LIBOR	GBP	25.0	28 September 2015
Issued 2008[1]				
Series C	7.19	GBP	32.0	13 September 2015
Issued 2010				
Series C[5]	4.78	GBP	50.0	30 June 2020
Issued 2011[1]				
Series A[4]	4.85	GBP	50.0	22 July 2019
Series C	4.76	GBP	35.0	19 July 2021
Issued 2013				
Series A[5]	3.73	GBP	75.0	30 September 2020
At 31 December 2014			267.0	
Issued or to be issued 2015				
Series C	3.26	GBP	25.0	22 January 2022
Series F	3.54	GBP	10.0	22 January 2025
Series G	3.67	GBP	30.0	22 April 2025
Series I	3.58	GBP	32.0	22 January 2027
Total of sterling denominated bonds			364.0	

Bond	Interest rate %	Denomination	US$m	Maturity
Issued 2006[2,3]				
Series B	5.88	US$	130.0	28 June 2016
Series B	5.81	US$	74.0	13 September 2016
Series C	5.77	US$	60.0	13 September 2016
Issued 2007[2,3]				
Series B	5.88	US$	179.0	11 October 2017
Issued 2008[2]				
Series A	6.04	US$	80.0	13 September 2015
Series B[4]	6.51	US$	256.0	13 September 2018
Issued 2010[2]				
Series A	4.15	US$	50.0	30 June 2017
Series B[4]	4.80	US$	250.0	30 June 2020
Issued 2011[2]				
Series B[4]	4.65	US$	80.0	22 July 2019
Series A	3.72	US$	40.0	19 July 2018
Series B[4]	4.50	US$	236.0	19 July 2021
Series A	4.75	US$	50.0	26 July 2021
At 31 December 2014			1,485.0	
Issued or to be issued 2015[2]				
Series A	3.33	US$	40.0	22 January 2022
Series B	3.43	US$	65.0	22 April 2022
Series D	3.45	US$	53.0	22 January 2023
Series E	3.65	US$	98.5	22 January 2025
Series H	3.80	US$	37.0	22 January 2027
Total of US$ denominated bonds			1,778.5	

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

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

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

4 The Group has entered a series of fixed rate interest rate swaps to convert the whole or a proportion of these issues from paying a floating rate based on 6-month LIBOR to fixed rates. See note 26 for further details of these fixed rate interest rate swaps.

5 The Group has entered fixed rate interest rate swaps to convert these issues to fixed rates of 3.95% on £50m and 3.9% on £75m rising to 5.7% and 6.0% respectively by maturity. See note 26 for further details of these fixed rate interest rate swaps.

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

23 Funds assets and liabilities

	2014 £m	2013 £m
Funds receivables	**116.0**	100.7
Funds restricted cash	**2.2**	0.1
Funds assets	**118.2**	100.8
Funds liabilities	**(118.2)**	(100.8)

These balances relate to investors' purchase or redemption of units in Investment Funds of which Capita Financial Managers Limited, our unit trust administration business, is an Authorised Corporate Director. The balances are due to and from the investors and Investment Funds. The parties to the trade are permitted to take advantage of a 4-day settlement period between initiation and settlement of the trade.

24 Obligations under leases and hire purchase contracts

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

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

	2014 £m	2013 £m
Not later than 1 year	**5.1**	4.9
Later than 1 year but not more than 5 years	**6.8**	12.4
	11.9	17.3

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

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

	2014 £m	2013 £m
Not later than 1 year	**107.6**	89.5
Later than 1 year but not later than 5 years	**239.2**	205.9
Later than 5 years	**146.9**	129.8
	493.7	425.2

The future minimum rentals payable disclosed above are the present value of the obligations.

Notes to the consolidated financial statements continued

25 Provisions

	Disposal/ closure provision £m	Asset services settlement provision £m	Insurance provision £m	Property provision £m	Other £m	Total £m
As at 1 January 2014	41.3	0.7	25.1	36.6	11.2	114.9
Utilisation	**(18.8)**	**(4.3)**	**(9.6)**	**(5.8)**	**(9.0)**	**(47.5)**
Provided in the year (net)	**4.0**	**28.4**	**7.0**	**(0.1)**	**0.1**	**39.4**
Provisions acquired	**–**	**–**	**–**	**4.7**	**0.1**	**4.8**
As at 31 December 2014	**26.5**	**24.8**	**22.5**	**35.4**	**2.4**	**111.6**

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 utilisation of the disposal/closure provision relates to ongoing costs incurred subsequent to the decision in 2013 to dispose of its insurance distribution business and close its SIP business. The additional provision provided for in 2014 relates to the additional costs that will be incurred as part of the disposal of its occupational health business. The provision is expected to unwind over 2 years.

Asset Services settlements relate to two matters:

1. The potential costs in resolving a claim by those investors who did not choose to accept the Arch Cru Payment Scheme established in 2011. The Payment Scheme has had an 87% acceptance rate.

2. The potential costs in resolving matters relating to a fund, of which CFM was the Operator until September 2009, when it was replaced by an unrelated company as Operator (following which CFM had no further involvement with the fund). The fund went into liquidation in 2012 and its liquidator has brought a claim against both former Operators.

Giving due consideration to these claims, the Group has made a provision of £24.8m at 31 December 2014 (2013: £0.7m). During the year, the Group has incurred £4.3m in respect of professional fees in relation to these matters. The claims are expected to unwind within one year.

The insurance provision is made in relation to the Group’s Professional Indemnity, Motor and Employee Liability exposures. 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. The Group's exposure is also mitigated by having in place a number of large insurance underwriters.

Within the property provisions there is included a discounted provision for the difference between the market value of the property leases acquired in 2011 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 24 years.

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.

26 Financial instruments

Financial risk management objectives and policies

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

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

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

Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short term debtors, creditors, fund payables/receivables and cash in hand) that are carried in the financial statements. The values below represent the carrying amounts. The carrying values are a reasonable approximation of fair value other than 2 fixed rate bonds totalling £125.0m, included below in the bond value of £1,306.8m, with a carrying value of £125.0m and a fair value of £133.6m. The fair value of these bonds has been calculated by discounting the expected future cash flows at prevailing interest rates and this fair value measurement would be categorised within level 2 of the fair value hierarchy.

At 31 December 2014	Available-for-sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial assets						
Unlisted equity securities	2.5	–	–	–	–	2.5
Investment loan	–	–	5.0	–	–	5.0
Interest rate swaps in relation to GBP denominated bonds	–	–	–	9.8	–	9.8
Currency swaps in relation to US$ denominated bonds	–	–	–	175.6	–	175.6
	2.5	–	5.0	185.4	–	192.9
Financial liabilities						
Overdraft	–	–	–	–	429.8	429.8
Unsecured loan notes	–	–	–	–	0.2	0.2
Bonds	–	–	–	–	1,306.8	1,306.8
Term loan	–	–	–	–	300.0	300.0
Cash flow hedges	–	–	–	18.7	–	18.7
Non-designated foreign exchange forward contracts	–	1.2	–	–	–	1.2
Currency swaps in relation to US$ denominated bonds	–	–	–	0.6	–	0.6
Contingent consideration	–	–	–	–	56.1	56.1
Deferred consideration	–	–	–	–	23.1	23.1
Obligations under finance leases	–	–	–	–	11.9	11.9
Public sector subsidiary partnership payment	–	–	–	–	54.3	54.3
Put options of non-controlling interests	–	–	–	–	109.4	109.4
Fixed rate interest rate swaps	–	63.3	–	–	–	63.3
	–	64.5	–	19.3	2,291.6	2,375.4

The aggregate bond value above of £1,306.8m includes the GBP value of the US$ denominated bonds at 31 December 2014. 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.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

At 31 December 2013	Available-for-sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial assets						
Unlisted equity securities	1.5	–	–	–	–	1.5
Investment loan	–	–	20.8	–	–	20.8
Non-designated foreign exchange forward contracts	–	0.1	–	–	–	0.1
Interest rate swaps in relation to GBP denominated bonds	–	–	–	7.7	–	7.7
Currency swaps in relation to US$ denominated bonds	–	–	–	139.4	–	139.4
	1.5	0.1	20.8	147.1	–	169.5
Financial liabilities						
Overdraft	–	–	–	–	453.0	453.0
Unsecured loan notes	–	–	–	–	10.4	10.4
Bonds	–	–	–	–	1,267.3	1,267.3
Term loan	–	–	–	–	200.0	200.0
Cash flow hedges	–	–	–	30.2	–	30.2
Non-designated foreign exchange forward contracts	–	1.8	–	–	–	1.8
Currency swaps in relation to US$ denominated bonds	–	–	–	13.5	–	13.5
Contingent consideration	–	–	–	–	35.2	35.2
Deferred consideration	–	–	–	–	58.6	58.6
Obligations under finance leases	–	–	–	–	17.3	17.3
Public sector subsidiary partnership payment	–	–	–	–	52.2	52.2
Put options of non-controlling interests	–	–	–	–	96.0	96.0
Fixed rate interest rate swaps	–	26.6	–	–	–	26.6
	–	28.4	–	43.7	2,190.0	2,262.1

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

Fair value hierarchy

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

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

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

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

As at 31 December 2014, the Group held the following financial instruments measured at fair value:

	2014 £m	2013 £m
Assets measured at fair value		
Non-designated foreign exchange forward contracts	**–**	0.1
Interest rate swaps in relation to GBP denominated bonds	**9.8**	7.7
Currency swaps in relation to US$ denominated bonds	**175.6**	139.4
Liabilities measured at fair value		
Bonds	**1,181.8**	1,142.3
Cash flow hedges	**18.7**	30.2
Non-designated foreign exchange forward contracts	**1.2**	1.8
Currency swaps in relation to US$ denominated bonds	**0.6**	13.5
Fixed rate interest rate swaps	**63.3**	26.6
Public sector subsidiary partnership payment	**54.3**	52.2
Contingent consideration	**56.1**	35.2

26 Financial instruments (continued)

During both years, the Group only had Level 2 assets or liabilities measured at fair value apart from contingent consideration, the public sector subsidiary partnership payment and the put options of non-controlling interests which are Level 3 liabilities. It is the Group's policy to recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred. During the year ended 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

Contingent consideration arises in business acquisitions where the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. The Group makes provision for such contingent consideration for each acquisition based on an assessment of its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation. A sensitivity analysis was performed on the expected contingent consideration of £56.1m. The sensitivity analysis performed adjusted the probability of payment of the contingent amounts. A 10% increase in the probability of contingent consideration being paid results in an increase in potential contingent consideration of £4.4m. A 10% decrease in the probability of the contingent consideration being paid results in a decrease in potential contingent consideration of £4.9m.

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by Axelos Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in years 3 to 9. This payment is funded by Axelos Limited and is contingent on profits. The fair value of £54.3m has been derived by discounting the expected payment at the Group cost of debt to arrive at its present value. If the discount rate was to increase/decrease by 1% the present value would decrease/increase by £3m.

The carrying value of all assets and liabilities that are measured at amortised cost is equivalent to their fair value.

The put options of the non-controlling interests (see note 22) are measured at amortised cost based on the expected redemption value of the shares that will be paid in cash by the Group. This value is determined by reference to the expected date of exercise of the options, which is then discounted to arrive at a present value. The sensitivity of the valuation to movements in both the discount rate and the cash flows that have been used to calculate it, are as follows: a 10% increase/decrease in the earnings potential of the business results in a £10.8m increase/decrease in the valuation; a 1% increase/decrease in the discount rate applied to the valuation results in a £4.0m decrease/£4.1m increase in the valuation.

The following table shows the reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m
At 1 January 2014	35.2	52.2	96.0
Arising from business combinations in the period	**39.5**	**–**	**–**
Profit and loss movement – administrative expenses	**(9.4)**	**–**	**–**
Utilised	**(9.2)**	**–**	**–**
Movement of put options recognised in equity	**–**	**–**	**13.4**
Discount unwind	**–**	**2.1**	**–**
At 31 December 2014	**56.1**	**54.3**	**109.4**

Interest rate risk

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

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

The Group has 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 fixed rate interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. Up to June 2012, the counterparty held the option to cancel these swaps on each semi-annual coupon payment date. In June 2012, the counterparty's option to cancel was removed, the duration of the swaps was extended and the fixed rate was reduced, taking advantage of the lower prevailing interest rate environment. These fixed rate interest rate swaps are not designated in any hedge relationship so their change in fair value is recognised in net finance costs in the income statement – see note 9 – Net finance costs.

Following the fall in prevailing interest rates at the end of 2008 and the low base interest rates maintained thereafter, these fixed rate interest rate swaps show a negative mark to market value of £63.3m at 31 December 2014 (2013: negative mark to market value of £26.6m). This movement results in a non-cash accounting loss in the year of £36.7m (2013: gain of £26.3m).

In addition to the fixed rate bonds of £753.1m in issue as at 31 December 2014 (underlying value – not adjusted for the impact of the swaps), the Group had a further £371.0m of swapped bonds, a £300.0m 2-year term loan and a £600.0m undrawn committed revolving credit facility, all 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.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

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

At 31 December 2014	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Bonds	**24.4**	**182.9**	**128.2**	**95.7**	**109.5**	**342.6**	**883.3**
Obligations under finance leases	**5.1**	**5.3**	**1.5**	**–**	**–**	**–**	**11.9**
Interest rate swap in relation to GBP denominated bonds	**–**	**–**	**–**	**–**	**(4.7)**	**–**	**(4.7)**
Foreign currency swaps in relation to US$ denominated bonds	**–**	**(42.0)**	**(38.7)**	**(29.3)**	**(4.2)**	**(13.1)**	**(127.3)**
Fixed rate interest rate swaps	**0.4**	**6.0**	**7.4**	**8.3**	**11.9**	**29.3**	**63.3**
Floating rate							
Cash in hand	**(458.9)**	**–**	**–**	**–**	**–**	**–**	**(458.9)**
Overdraft	**429.8**	**–**	**–**	**–**	**–**	**–**	**429.8**
Investment loan	**–**	**–**	**(0.2)**	**(0.3)**	**(0.3)**	**(4.2)**	**(5.0)**
Bonds	**86.5**	**–**	**33.5**	**115.7**	**–**	**187.8**	**423.5**
Term loan	**–**	**200.0**	**–**	**–**	**100.0**	**–**	**300.0**
Cash flow hedges	**3.1**	**3.9**	**4.1**	**4.3**	**3.3**	**–**	**18.7**
Non-designated foreign exchange forward contracts	**0.3**	**–**	**0.1**	**0.2**	**0.3**	**0.3**	**1.2**
Interest rate swap in relation to GBP denominated bonds	**(1.3)**	**–**	**–**	**–**	**–**	**(3.8)**	**(5.1)**
Foreign currency swaps in relation to US$ denominated bonds	**(13.2)**	**–**	**0.3**	**(28.8)**	**–**	**(6.0)**	**(47.7)**

At 31 December 2013	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Bonds	13.1	24.7	179.7	125.5	77.4	178.6	599.0
Obligations under finance leases	4.9	5.2	5.0	2.2	–	–	17.3
Foreign currency swaps in relation to US$ denominated bonds	(2.7)	–	(38.8)	(35.1)	(21.8)	3.1	(95.3)
Fixed rate interest rate swaps	0.2	0.9	7.6	6.0	3.7	8.2	26.6
Floating rate							
Cash in hand	(610.8)	–	–	–	–	–	(610.8)
Overdraft	453.0	–	–	–	–	–	453.0
Investment loan	(0.3)	(3.5)	(4.0)	(5.0)	(8.0)	–	(20.8)
Bonds	–	86.7	–	32.0	125.5	424.1	668.3
Term loan	–	200.0	–	–	–	–	200.0
Cash flow hedges	6.0	4.6	5.2	5.4	5.4	3.6	30.2
Non-designated foreign exchange forward contracts	0.4	0.5	0.2	0.2	0.2	0.2	1.7
Interest rate swap in relation to GBP denominated bonds	–	(2.7)	–	–	–	(5.0)	(7.7)
Foreign currency swaps in relation to US$ denominated bonds	–	(12.0)	–	1.8	(28.1)	7.7	(30.6)

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	
2014	**1**	**(1)**	**(0.1)**	**0.1**
2013	13	(13)	(0.8)	0.8

Foreign currency risk

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

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

At 31 December 2014, the Group had cash flow hedges in place against forecast monthly INR costs in 2015 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.

26 Financial instruments (continued)

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
2014	**(2.86)%**	**–**	**5.3**
2013	(2.44)%	–	3.4

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 (2013: £117.0m) whereby it receives a weighted average fixed rate of interest of 5.46% (2013: fixed rate of interest 5.46%) and pays variable rates based on 6 month GBP LIBOR. The swap is being used to hedge the exposure to changes in the fair value of £117.0m (2013: £117.0m) of the Group's bonds.

The Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on 6 month GBP LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £857.1m (2013: £867.7m) 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).

The total gain in the year on the fair value hedges of £50.9m (2013: total loss £90.0m), excluding credit risk, was equal to the gain 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	**2014** Assets £m	**2014** Liabilities £m	2013 Assets £m	2013 Liabilities £m
Fair value	**–**	**(18.7)**	–	(30.2)

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 2014 and a net unrealised loss of £18.7m (2013: loss of £30.2m) less deferred tax of £3.7m (2013: £6.0m) was recognised in equity. The net gain recognised on cash flow hedges during the year was £5.6m (2013: net loss £10.3m) whilst net losses of £6.0m (2013: losses of £2.6m) were reclassified to the income statement and included in administrative expenses. The tax effect of the net movement in cash flow hedges during the year was a debit of £(2.3)m (2013: credit of £0.8m).

Credit risk

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

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

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

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

Liquidity risk

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

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, term loans, loan notes, overdrafts and finance leases over a broad spread of maturities to 2021.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted payments.

At 31 December 2014	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	**429.8**	**–**	**–**	**–**	**–**	**–**	**429.8**
Unsecured loan notes	**0.1**	**0.1**	**–**	**–**	**–**	**–**	**0.2**
Bonds	**108.4**	**169.5**	**147.0**	**190.0**	**101.4**	**789.5**	**1,505.8**
Interest on above bonds	**73.1**	**65.0**	**56.9**	**49.5**	**37.8**	**75.8**	**358.1**
Term loan	**–**	**200.0**	**–**	**–**	**100.0**	**–**	**300.0**
Interest on above term debt	**3.7**	**1.8**	**1.7**	**1.7**	**0.6**	**–**	**9.5**
Contingent consideration	**33.3**	**17.5**	**5.3**	**–**	**–**	**–**	**56.1**
Public sector subsidiary partnership payment	**–**	**–**	**9.4**	**9.4**	**9.4**	**37.6**	**65.8**
Put options of non-controlling interests	**–**	**–**	**–**	**39.8**	**106.1**	**–**	**145.9**
Obligations under finance leases	**5.1**	**5.3**	**1.5**	**–**	**–**	**–**	**11.9**
Currency swaps	**0.8**	**(4.3)**	**(2.2)**	**(3.5)**	**(3.5)**	**(19.5)**	**(32.2)**
Fixed rate interest rate swaps	**5.5**	**16.9**	**20.8**	**19.5**	**15.7**	**13.8**	**92.2**
Non-designated foreign exchange forward contracts	**0.1**	**–**	**–**	**–**	**–**	**–**	**0.1**
Cash flow hedges	**2.7**	**3.0**	**2.7**	**2.7**	**2.0**	**–**	**13.1**
	662.6	**474.8**	**243.1**	**309.1**	**369.5**	**897.2**	**2,956.3**

At 31 December 2013	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	453.0	–	–	–	–	–	453.0
Unsecured loan notes	10.2	0.1	0.1	–	–	–	10.4
Bonds	12.7	105.4	159.8	138.6	179.1	582.8	1,178.4
Interest on above bonds	60.8	60.1	52.3	44.6	37.6	53.3	308.7
Term loan	–	200.0	–	–	–	–	200.0
Interest on above term debt	2.4	1.3	–	–	–	–	3.7
Contingent consideration	9.4	18.3	7.5	–	–	–	35.2
Public sector subsidiary partnership payment	–	–	–	9.4	9.4	47.0	65.8
Put options of non-controlling interests	–	–	–	–	–	160.6	160.6
Obligations under finance leases	4.9	5.2	5.0	2.2	–	–	17.3
Currency swaps	(9.2)	(9.2)	(5.6)	(8.8)	(7.7)	5.5	(35.0)
Fixed rate interest rate swaps	5.7	10.8	14.2	16.8	12.5	11.4	71.4
Non-designated foreign exchange forward contracts	0.4	0.3	(0.1)	(0.2)	(0.3)	(0.6)	(0.5)
Cash flow hedges	5.2	3.2	3.4	3.2	3.1	2.3	20.4
	555.5	395.5	236.6	205.8	233.7	862.3	2,489.4

Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed to each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

In addition, the Group's banks have the right to set off amounts owed to them under ISDA master netting agreements and loans against cash amounts held by the relevant Group member with that bank, but only in certain circumstances – e.g. when a credit event such as a default occurs. The Group also has notional cash pools with its banks under which the bank may net cash balances with overdrafts held by other members of the Group.

26 Financial instruments (continued)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

At 31 December 2014	Gross and net amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets			
Currency swaps	**175.6**	**(63.7)**	**111.9**
Interest rate swaps	**9.8**	**–**	**9.8**
Cash at bank	**458.9**	**(333.0)**	**125.9**
	644.3	**(396.7)**	**247.6**
Financial liabilities			
Cash flow hedges	**(18.7)**	**18.7**	**–**
Non-designated foreign exchange forward contracts	**(1.2)**	**1.2**	**–**
Currency swaps	**(0.6)**	**0.4**	**(0.2)**
Fixed rate interest rate swaps	**(63.3)**	**63.3**	**–**
Term loan	**(300.0)**	**1.4**	**(298.6)**
Overdrafts	**(429.8)**	**311.7**	**(118.1)**
	(813.6)	**396.7**	**(416.9)**

At 31 December 2013	Gross and net amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets			
Non-designated foreign exchange forward contracts	0.1	–	0.1
Currency swaps	139.4	(60.8)	78.6
Interest rate swaps	7.7	(1.6)	6.1
Cash at bank	610.8	(527.5)	83.3
	758.0	(589.9)	168.1
Financial liabilities			
Cash flow hedges	(30.2)	27.3	(2.9)
Non-designated foreign exchange forward contracts	(1.8)	1.7	(0.1)
Currency swaps	(13.5)	12.5	(1.0)
Fixed rate interest rate swaps	(26.6)	26.6	–
Term loan	(200.0)	100.0	(100.0)
Overdrafts	(453.0)	421.8	(31.2)
	(725.1)	589.9	(135.2)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business operations, its acquisition strategy and maximise shareholder value. The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Focus on capital management forms an important component of the monthly Board meetings with attention on various matters including: return on capital employed, ensuring a mix of funding sources to ensure continuity and flexibility, a balance between fixed and floating borrowings and a broad spread of maturities together with attention to ensuring adequate liquidity headroom.

The Group's capital management process ensures that it meets financial covenants in its borrowing arrangements. Breaches in meeting the financial covenants could permit the lenders to immediately accelerate repayment of loans and borrowings. The Group monitors, as part of its monthly Board review, that it will adhere to specified consolidated leverage ratios and consolidated net interest expense coverage ratios. There have been no breaches in the financial covenants of any loans and borrowings in the period.

The Group has a business model that is driven by organic growth and through the acquisition of small- and medium-sized entities which enhance existing portfolios or provide access to new markets. The availability of funds for this acquisition activity is thus a key consideration when determining the use and management of capital. The Group therefore uses longer dated debt, generally bonds and long term bank facilities, to enable it to finance these purchases.

Notes to the consolidated financial statements continued

26 Financial instruments (continued)

Capita plc supports the growth of its various financial services businesses, which form a key part of its overall strategy and business plan. These financial firms are subject to various capital requirements imposed by financial services regulators. These requirements do not apply to Capita plc itself and the Group is not required to provide consolidated returns for regulatory purposes. The board of each regulated firm is responsible for ensuring it has embedded capital management frameworks that test there are adequate financial resources at all times. During the year, they complied with all externally imposed financial services regulatory capital requirements.

The Group seeks to maintain a conservative and efficient capital structure with an appropriate level of gearing. It is Group policy to target a long term net debt to EBITDA ratio in the range of 2.0 to 2.5 and maintain interest cover above 7.0 times. At 31 December 2014, our annualised net debt to EBITDA ratio was 2.1 (2013: 2.0) with annualised interest cover at 14.2 times (2013: 12.3 times). These ratios are monitored monthly by the Board. As the Group considers a long term net debt to EBITDA ratio the most appropriate measure for gearing, it does not maintain or monitor a targeted debt/equity ratio.

The Group raises debt in a number of markets including the bank loan market, bank overdraft, finance lease and bond markets. The Group has available to it a committed Revolving Credit Facility of £600m maturing in August 2019, of which £nil was drawn down as at 31 December 2014 (2013: £nil drawn down on a £425m Revolving Credit Facility). These funds are available for the Group's immediate use.

In addition in 2014, the Group agreed to issue a total of US$228.5m and £67.0m of new bonds in January 2015 and US$65.0m and £30.0m in April 2015.

The Group has a spread of bond maturities over many years to 2027 (see note 22).

The Group's dividend policy is to return surplus cash to shareholders through a mixture of progressive dividends and, when appropriate, capital returns. Total dividends have grown at a compound rate of 11.7% over the 5 years to 31 December 2014 whilst dividend cover in the year is 2.23 times. The Group returned £155m capital to shareholders by means of a special dividend in 2007 and undertakes share buybacks on an opportunistic basis, as market conditions allow, in order to maintain an efficient capital structure and to minimise its long term cost of capital. Shareholder approval is sought annually for authority to purchase up to 10% of issued share capital and it is Group policy to continue to evaluate any attractive opportunities for share buybacks as they arise.

No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013.

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

	2014 £m	2013 £m
Shareholders' funds	915.5	896.3
Cash in hand	(458.9)	(610.8)
Overdraft	429.8	453.0
Unsecured loan notes	0.2	10.4
Obligations under finance leases	11.9	17.3
Bonds	1,306.8	1,267.3
Term loan	300.0	200.0
Currency and interest rate swaps	(184.8)	(133.6)
At 31 December	2,320.5	2,099.9

27 Issued share capital

Allotted, called up and fully paid	2014 m	2013 m	2014 £m	2013 £m
Ordinary shares of 2 1/15p each				
At 1 January	669.8	668.4	13.8	13.8
Issue of share capital	–	0.4	–	–
Issued on exercise of share options	0.2	1.0	–	–
At 31 December	670.0	669.8	13.8	13.8

During the year, 0.2m (2013: 1.0m) ordinary 2 1/15p shares with an aggregate nominal value of £4,224 (2013: £20,160) were issued under share option schemes for a total consideration of £1.2m (2013: £6.3m).

In October 2013, the Company issued 0.4m ordinary shares as part of the acquisition of ParkingEye Limited for a consideration of £4.1m.

Treasury shares	2014 m	2013 m	2014 £m	2013 £m
Ordinary shares of 2 1/15p				
At 1 January	11.1	13.4	0.3	0.3
Shares allotted in the year	(2.6)	(2.3)	(0.1)	–
At 31 December	8.5	11.1	0.2	0.3

In 2014, the Group made no purchases of shares into Treasury and allotted 2.6m (2013: 2.3m) shares with an aggregate nominal value of £53,833 (2013: £47,468). The total consideration received in respect of these shares was £6.7m (2013: £7.6m).

27 Issued share capital (continued)

Employee benefit trust shares	2014 m	2013 m	2014 £m	2013 £m
Ordinary shares of 2 1/15p				
At 1 January	**2.5**	3.3	**0.1**	0.1
Shares allotted in the year	**(0.3)**	(0.8)	**–**	–
At 31 December	**2.2**	2.5	**0.1**	0.1

The Group will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year, the EBT allotted 0.3m (2013: 0.8m) ordinary 2 1/15p shares with an aggregate nominal value of £6,597 (2013: £16,337) to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £nil (2013: £2.8m).

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

28 Share based payment plans

The Group operates several share based payment plans. The expense recognised for share based payments in respect of employee services received during the year to 31 December 2014 was £11.0m (2013: £10.5m), 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. Following the award made in February 2014 in respect of 2013, this scheme is only applicable to 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 92 to 108) 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. Directors have the option to defer up to 100% of their annual bonus into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

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. Following the award made in February 2014, in respect of 2013 it is not planned to award any further matching awards under this plan going forward.

The vesting conditions for matching awards made in 2011 were such that 33% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

There were no issues under the Deferred Annual Bonus Plan in 2012.

The vesting conditions for matching awards made in 2013 were such that 33% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

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. From 2014, the number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4%, the Company's Return on Capita Employed exceeding 14% and on banding within the scheme.

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. All shares in this plan have now been exercised.

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.

Notes to the consolidated financial statements continued

28 Share based payment plans (continued)

2011 Co-Investment Plan

The Co-Investment Plan was approved at the AGM on 10 May 2011 and provides for a grant of 3 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 4 year performance period from the date of grant. No shares will vest if over the performance period the Company's TSR is lower than the median; 33.33% will vest if it is equal to median and 100% will vest if ranked in the upper quartile when compared against the FTSE 100 TSR.

Between median TSR and top quartile the number of shares vesting will be on a straight-line basis in proportion to the position achieved by the Company. No plan shares will vest if the EPS of Capita plc has not grown over the performance period.

During the year ended 31 December 2011, the total number of shares pledged was 137,362 with a market value of £1.0m. The maximum Matching Shares under the plan amounted to 289,308 with a market value of £3.1m at 31 December 2014.

Following Paul Pindar's retirement on 28 February 2014, awards outstanding under the Long Term Incentive Plans and the Co-Investment Plan at the date of his retirement will continue until their maturity. Such awards will vest subject to the existing performance conditions and will be pro rata reduced for the vesting time period post-retirement. The Deferred Annual Bonus Plan matching award made in 2013 lapsed.

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)

	2014 Million	2014 WAEP	2013 Million	2013 WAEP
Outstanding as at 1 January	2.2	£6.89	4.4	£6.77
Granted during the year	–	–	–	–
Exercised	(1.2)	£6.78	(2.0)	£6.64
Forfeited	(0.2)	£4.63	(0.1)	£6.39
Expired during the year	(0.1)	£6.97	(0.1)	£6.90
Outstanding as at 31 December	0.7	£7.80	2.2	£6.89
Exercisable at 31 December	0.7	£6.17	1.6	£5.54

The weighted average remaining contractual life of the above shares outstanding at 31 December 2014 was 1.3 years (2013: 1.5 years).

2008 LTIP

	2014 Million	2014 WAEP	2013 Million	2013 WAEP
Outstanding as at 1 January	8.6	–	7.3	–
Awarded during the year	3.0	–	3.4	–
Exercised	(1.8)	–	(1.3)	–
Forfeited	(0.9)	–	(0.8)	–
Outstanding as at 31 December	8.9	–	8.6	–
Exercisable at 31 December	0.1	–	0.6	–

The weighted average remaining contractual life of the above shares outstanding at 31 December 2014 was 1.5 years (2013: 1.5 years).

LTISAS

	2014 Million	2014 WAEP	2013 Million	2013 WAEP
Outstanding as at 1 January	–	–	0.6	£4.74
Exercised	–	–	(0.6)	£4.74
Outstanding as at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

The weighted average share price of options at the date of exercise in 2014 was £10.06. The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £11.11 (2013: £9.41).

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus Plan, discussed above, was £1.9m (2013: £2.2m). The Matching Shares allocation in respect of the 2013 awards under this plan charged in 2014 was £0.5m (2013: £0.5m).

The weighted average fair value of options granted/awarded during the year was £5.53 (2013: £4.15). The range of exercise prices for all options outstanding at the end of the year was £3.62 to £7.16 (2013: £3.62 to £7.16).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted.

28 Share based payment plans (continued)

The following table lists the inputs to the model used for the years ended 31 December 2014 and 31 December 2013.

	2014	2013
Dividend yield (%)	**2.82**	2.93
Expected share price volatility (%)	**20.80**	23.00
Floor price for LTIP (applicable to LTIP 08)	**£11.40**	£8.24
Risk free interest rate (%)	**0.62**	0.50
Expected life of option (years)	**3.00**	3.00
Weighted average share price of options granted during the year	**–**	–

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

29 Additional cash flow information

Reconciliation of net cash flow to movement in net funds/(debt)

	Net debt at 1 January 2014 £m	Acquisitions in 2014 (excluding cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2014 £m
Cash, cash equivalents and overdrafts	157.8	–	(126.6)	(2.1)	29.1
Loan notes	(10.4)	–	10.2	–	(0.2)
Bonds[1]	(1,267.3)	–	10.6	(50.1)	(1,306.8)
Currency swaps in relation to US$ denominated bonds[1]	125.9	–	–	49.1	175.0
Interest rate swaps in relation to GBP denominated bonds[1]	7.7	–	–	2.1	9.8
Long term debt	–	(21.5)	21.5	–	–
Term loan	(200.0)	–	(100.0)	–	(300.0)
Finance leases	(17.3)	(0.1)	5.5	–	(11.9)
Underlying net debt	(1,203.6)	(21.6)	(178.8)	(1.0)	(1,405.0)
Fixed rate interest rate swaps	(26.6)	–	–	(36.7)	(63.3)
	(1,230.2)	(21.6)	(178.8)	(37.7)	(1,468.3)

1 The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,122.0m (2013: £1,133.7m).

The aggregate bond fair value above of £1,306.8m (2013: £1,267.3m) (disclosed in note 22 – Financial liabilities) includes the GBP value of the US$ denominated bonds at 31 December 2013. 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 £184.8m (2013: £133.6m), is disclosed in note 16 – Financial assets, and in note 22 – Financial liabilities.

Notes to the consolidated financial statements continued

29 Additional cash flow information (continued)

	Net debt at 1 January 2013 £m	Acquisitions in 2013 (excluding cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2013 £m
Cash, cash equivalents and overdrafts	306.7	–	(148.8)	(0.1)	157.8
Loan notes	(0.5)	–	0.1	(10.0)	(10.4)
Bonds[1]	(1,370.1)	–	13.1	89.7	(1,267.3)
Currency swaps in relation to US$ denominated bonds[1]	206.2	–	–	(80.3)	125.9
Interest rate swaps in relation to GBP denominated bonds[1]	15.9	–	–	(8.2)	7.7
Long term debt	–	(14.2)	14.2	–	–
Term loan	(185.0)	–	185.0	–	–
New Term loan	–	–	(200.0)	–	(200.0)
Finance leases	(2.7)	(25.4)	10.8	–	(17.3)
Underlying net debt	(1,029.5)	(39.6)	(125.6)	(8.9)	(1,203.6)
Fixed rate interest rate swaps	(52.9)	–	–	26.3	(26.6)
	(1,082.4)	(39.6)	(125.6)	17.4	(1,230.2)

1 The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,133.7m (2012: £1,148.0m).

30 Capital commitments

At 31 December 2014, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £0.2m (2013: £nil).

31 Contingent liabilities

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £86.0m (2013: £88.4m).

32 Employee benefits

The Group operates both defined benefit and defined contribution pension schemes.

The pension charge for the defined contribution pension schemes for the year is £78.7m (2013: £62.7m).

In 2014, there was 1 main defined benefit pension scheme where the Group is the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). The Northgate Managed Services Pension Scheme was merged into the Capita Scheme on 1 April 2014. The Legal & Trade Financial Services Limited Superannuation and Life Assurance Scheme merged into the Capita Scheme on 31 December 2014. Grouped together under 'Other schemes' are smaller arrangements: 4 further schemes where the Group is the sole employing sponsor, 1 of which transferred to the Group as a result of the acquisitions of PageOne Communications Limited during 2014. Two of these schemes were merged into the Capita scheme during 2014; an allocated section of a local government pension scheme where the Group is the employing sponsor; a segregated section of a multi-employer scheme in which the Group is a participating employer; two segregated sections in industry wide schemes; and several schemes to which the Group makes contributions under Admitted Body status to our clients' defined benefit pension schemes in respect of certain TUPE employees. For the Admitted Body schemes, the Group will only participate in the schemes for a finite period up to the end of the contract with the client.

These pension schemes are HMRC registered pension schemes and are subject to standard UK pensions and tax law. Details of the benefits provided by the schemes are set out in each schemes' documentation.

For those schemes to which the Group makes contributions under Admitted Body status (which are all part of the Local Government Pension Scheme) and the allocated section of a local government pension scheme, responsibility for the governance of the schemes lies with boards which operate under a framework of corporate governance and are responsible for following the relevant statutory regulations.

For the other schemes, responsibility for the governance of the schemes lies with the trustees of the scheme and the nature of the relationship between the Group and the trustees is governed by regulations. The appointment of trustees is determined by the trust documentation.

The assets of the schemes are held in separate funds (administered by the trustees of the scheme or on behalf of the Board in the case of the local government pension schemes) to meet long-term pension liabilities to beneficiaries.

The trustees or boards (as appropriate) of the schemes invest the assets in line with the Statement of Investment Principles.

The Statement of Investment Principles has been established after taking into consideration the liabilities of the schemes and the investment risk that the trustees or boards (as appropriate) are willing to accept – for those schemes governed by trustees the Group will have been consulted before the Statement of Investment Principles was formally adopted.

32 Employee benefits (continued)

For the non-local government pension schemes the scheme funding regime introduced by the Pensions Act 2004 required trustees to carry out regular funding assessments of the schemes and establish schedules of contributions and recovery plans when there is a shortfall in the schemes. The recovery plans detail the amount and timing of the contributions required to eliminate the shortfall in the schemes. Funding assessments are carried out at least every 3 years. Approximate funding updates are produced at each scheme anniversary, when a full scheme funding assessment is not being undertaken.

At each scheme funding assessment the present value of the contributions detailed in the current recovery plans is compared with any shortfall revealed. Where the contributions under the current recovery plans are no longer expected (by the end of periods specified in the recovery plans) to be sufficient to remove the shortfall, new recovery plans will need to be agreed between the trustees and the Group. Options include increasing contributions due from the Group, extending the recovery periods with additional contributions paid after the expiry of current recovery periods or some combination of the 2. The affordability to the Group of any increase in contributions is a primary consideration in the agreement of any new recovery plan.

Where the contributions are more than sufficient to remove the shortfall by the end of the recovery period, options include reducing contributions due, keeping the recovery period the same, or shortening the recovery period.

Following the most recent funding assessment of the Capita scheme which was carried out as at 31 March 2014, the Group entered into an agreement to make additional contributions to the Capita scheme over a period of time until 2027. The next scheme funding assessment will be carried out with an effective date of 31 March 2017.

For the other non-local government pension schemes, the latest formal valuations for each scheme were carried out between 31 December 2009 and 31 March 2014. The valuations for the other schemes are updated by qualified actuaries at each balance sheet date. Scheme assets are stated at their market valuations at each respective balance sheet date.

For the local government pension schemes there is a similar funding regime which is set out in the Local Government Pension Scheme (Administration) Regulations 2008. For the Admitted Body schemes, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions.

In addition, the Group will be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. In respect of this, the Group is carrying a sufficient level of provision in these financial statements.

During 2012, the contract with Torfaen County Borough Council came to an end. This may result in an exit debt payment. Capita continues to be in discussion with Greater Gwent (Torfaen) Pension Fund regarding the amount of any exit debt that may be payable.

These defined benefit pension schemes expose the Group to actuarial risks, such as longevity risk, interest rate risk, salary risk, market (investment) risk and currency risk.

Further to a funding plan agreed with the Capita Scheme's Trustees in 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the Partnership) with the Capita Scheme. Under this arrangement, intellectual property rights (IPR) in specific Group software was transferred to the partnership and the rights to use, develop and exploit this IPR was licensed back to the Group in return for an annual fee. The Capita Scheme's interest in the Partnership entitles it to an annual distribution of £8m for 15 years.

The Group's interest in the Partnership is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the partnership are not required to be, and have not been, filed at Companies House.

Notes to the consolidated financial statements continued

32 Employee benefits (continued)

Under IAS 19 (Revised) the interest in the Partnership does not represent a plan asset for Group reporting purposes and therefore the Capita Scheme's deficit position presented in these accounts does not reflect the Capita Scheme's interest in the Partnership. Accordingly, distributions from the Partnership to the Capita Scheme are reflected in these Group accounts as pension contributions to the Capita Scheme on a cash basis as paid. The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are:

	Capita scheme		Other schemes		Group total	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Scheme assets at fair value:						
Equities:						
– UK	**82.6**	77.8	**7.6**	16.0	**90.2**	93.8
– Overseas	**199.2**	176.8	**29.2**	44.4	**228.4**	221.2
– Private	**–**	–	**3.7**	1.9	**3.7**	1.9
	281.8	254.6	**40.5**	62.3	**322.3**	316.9
Debt securities:						
– UK Government	**131.3**	38.1	**6.6**	42.5	**137.9**	80.6
– UK Corporate	**26.7**	41.7	**5.7**	6.9	**32.4**	48.6
– Overseas Government	**36.3**	15.4	**2.4**	0.3	**38.7**	15.7
– Overseas Corporate	**121.7**	91.6	**8.6**	2.1	**130.3**	93.7
– Emerging Markets	**24.0**	24.6	**0.2**	0.2	**24.2**	24.8
– Private Debt[1]	**8.8**	5.2	**–**	–	**8.8**	5.2
– Secured Loans	**–**	–	**–**	8.8	**–**	8.8
	348.8	216.6	**23.5**	60.8	**372.3**	277.4
Property	**61.7**	50.5	**5.9**	5.4	**67.6**	55.9
Target Return	**–**	–	**12.6**	0.4	**12.6**	0.4
Infrastructure	**–**	–	**0.2**	1.1	**0.2**	1.1
Credit Funds	**–**	–	**–**	2.4	**–**	2.4
Asset Backed Securities	**4.4**	1.2	**0.1**	–	**4.5**	1.2
Hedge Funds	**113.6**	123.7	**0.5**	31.9	**114.1**	155.6
Diversified growth funds	**33.2**	–	**–**	–	**33.2**	–
Insurance Contracts[1]	**–**	2.9	**–**	–	**–**	2.9
Cash	**6.0**	26.7	**5.1**	5.8	**11.1**	32.5
Other	**–**	–	**1.6**	1.9	**1.6**	1.9
	218.9	205.0	**26.0**	48.9	**244.9**	253.9
Total	**849.5**	676.2	**90.0**	172.0	**939.5**	848.2
Present value of scheme liabilities	**1,023.8**	764.3	**108.2**	202.3	**1,132.0**	966.6
Net liability	**(174.3)**	(88.1)	**(18.2)**	(30.3)	**(192.5)**	(118.4)

1 The assets of the schemes are all quoted with the exception of the private debt holdings and insurance contracts in the Capita scheme.

32 Employee benefits (continued)

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

						Group total
	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Balance at 1 January	**966.6**	783.3	**(848.2)**	(675.2)	**118.4**	108.1
Included in the income statement:						
Current service cost	**24.0**	25.2	**–**	–	**24.0**	25.2
Administration costs	**2.6**	2.6	**–**	–	**2.6**	2.6
Past service cost including curtailments	**(1.3)**	0.3	**–**	–	**(1.3)**	0.3
Interest cost/(income)	**43.4**	39.3	(38.4)	(34.6)	**5.0**	4.7
Sub-total in income statement	**68.7**	67.4	(38.4)	(34.6)	**30.3**	32.8
Included in other comprehensive income:						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(16.2)**	–	**–**	–	**(16.2)**	–
– financial assumptions	**105.9**	33.5	**–**	–	**105.9**	33.5
– experience adjustments	**14.5**	(9.8)	**–**	–	**14.5**	(9.8)
– changes in asset ceiling/minimum liability	**–**	(2.5)	**–**	–	**–**	(2.5)
Return on plan assets excluding interest	**–**	–	**(37.0)**	(32.1)	**(37.0)**	(32.1)
Sub-total in other comprehensive income	**104.2**	21.2	**(37.0)**	(32.1)	**67.2**	(10.9)
Employer contributions	**–**	–	**(26.3)**	(25.9)	**(26.3)**	(25.9)
Contributions by employees	**0.3**	0.4	**(0.3)**	(0.4)	**–**	–
Benefits paid	**(25.3)**	(21.6)	**25.3**	21.6	**–**	–
Exchange differences	**(0.1)**	–	**0.1**	–	**–**	–
Contract bulk transfers/business combinations	**17.6**	115.9	**(14.7)**	(101.6)	**2.9**	14.3
Balance at 31 December	**1,132.0**	966.6	**(939.5)**	(848.2)	**192.5**	118.4

The defined benefit obligation comprises £1,132.0m (2013: £966.6m) arising from schemes that are wholly or partly funded.

Of the total pension cost of £30.3m (2013: £32.8m), £22.7m (2013: £23.1m) was included in cost of sales, £2.6m (2013: £5.0m) was included in administrative expenses, and £5.0m in finance costs (2013: £4.7m).

						Capita scheme
	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Balance at 1 January	**764.3**	707.4	**(676.2)**	(617.1)	**88.1**	90.3
Included in the income statement:						
Current service cost	**23.2**	24.1	**–**	–	**23.2**	24.1
Administration cost	**2.5**	2.4	**–**	–	**2.5**	2.4
Past service cost including curtailments	**1.1**	0.3	**–**	–	**1.1**	0.3
Interest cost/(income)	**37.9**	31.5	**(33.8)**	(27.8)	**4.1**	3.7
Sub-total in income statement	**64.7**	58.3	**(33.8)**	(27.8)	**30.9**	30.5
Included in other comprehensive income:						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(15.0)**	–	**–**	–	**(15.0)**	–
– financial assumptions	**99.2**	25.7	**–**	–	**99.2**	25.7
– experience adjustments	**13.6**	(9.8)	**–**	–	**13.6**	(9.8)
Return on plan assets excluding interest	**–**	–	**(31.2)**	(28.5)	**(31.2)**	(28.5)
Sub-total in other comprehensive income	**97.8**	15.9	**(31.2)**	(28.5)	**66.6**	(12.6)
Employer contributions		–	**(22.2)**	(20.1)	**(22.2)**	(20.1)
Contributions by employees	**0.2**	0.2	**(0.2)**	(0.2)	**–**	–
Benefits paid	**(22.4)**	(17.6)	**22.4**	17.6	**–**	–
Contract bulk transfers/business combinations	**119.2**	0.1	**(108.3)**	(0.1)	**10.9**	–
Balance at 31 December	**1,023.8**	764.3	**(849.5)**	(676.2)	**174.3**	88.1

Notes to the consolidated financial statements continued

32 Employee benefits (continued)

Other schemes

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Balance at 1 January	**202.3**	75.9	**(172.0)**	(58.1)	**30.3**	17.8
Included in the income statement:						
Current service cost	**0.8**	1.1	**–**	–	**0.8**	1.1
Administration cost	**0.1**	0.2	**–**	–	**0.1**	0.2
Past service cost including curtailment	**(2.4)**	–	**–**	–	**(2.4)**	–
Interest cost/(income)	**5.5**	7.8	**(4.6)**	(6.8)	**0.9**	1.0
Sub-total in income statement	**4.0**	9.1	**(4.6)**	(6.8)	**(0.6)**	2.3
Included in other comprehensive income:						
Re-measurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(1.2)**	–	**–**	–	**(1.2)**	–
– financial assumptions	**6.7**	7.8	**–**	–	**6.7**	7.8
– experience adjustments	**0.9**	–	**–**	–	**0.9**	–
– changes in asset ceiling/minimum liability	**–**	(2.5)	**–**	–	**–**	(2.5)
Return on plan assets excluding interest	**–**	–	**(5.8)**	(3.6)	**(5.8)**	(3.6)
Sub-total in other comprehensive income	**6.4**	5.3	**(5.8)**	(3.6)	**0.6**	1.7
Employer contributions	**–**	–	**(4.1)**	(5.8)	**(4.1)**	(5.8)
Contributions by employees	**0.1**	0.2	**(0.1)**	(0.2)	**–**	–
Benefits paid	**(2.9)**	(4.0)	**2.9**	4.0	**–**	–
Exchange differences	**(0.1)**	–	**0.1**	–	**–**	–
Contract bulk transfers/business combinations	**(101.6)**	115.8	**93.6**	(101.5)	**(8.0)**	14.3
Balance at 31 December	**108.2**	202.3	**(90.0)**	(172.0)	**18.2**	30.3

Information about the defined benefit obligation for the Capita scheme:

	Proportion of overall liability %	Duration (years)
Active members	**21.0**	**24.0**
Deferred members	**51.0**	**24.0**
Pensioners	**28.0**	**13.0**
Total	**100.0**	**20.9**

32 Employee benefits (continued)

Main assumptions:	Capita scheme 2014 %	Capita scheme 2013 %	Other schemes[2] 2014 %	Other schemes[2] 2013 %
Rate of price inflation – RPI/CPI	**3.0/2.0**	3.3/2.3	**3.0/2.0**	3.3/2.3
Rate of salary increase	**3.0**	3.3	**3.0**	3.3
Rate of increase of pensions in payment[1]:				
– RPI inflation capped at 5% per annum	**2.9**	3.2	**2.9**	3.2
– RPI inflation capped at 2.5% per annum	**2.1**	2.2	**2.1**	2.2
– CPI inflation capped at 5% per annum	**2.0**	2.3	**2.0**	2.3
– CPI inflation capped at 2.5% per annum	**1.6**	1.8	**1.6**	1.8
Discount rate	**3.75**	4.50	**3.75**	4.50
CARE active revaluation (inflation capped at 3.5% per annum)	**2.6**	2.8	**2.6**	2.8
Expected take up maximum available tax free cash	**85.0**	85.0	**85.0**	85.0

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2014 and 31 December 2013 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	**2013**
Capita scheme	**22.8**	24.1	**24.3**	24.6	**23.3**	24.0	**25.3**	25.3
Other schemes[3]	**22.8 to 23.7**	22.3 to 22.8	**24.3 to 24.7**	24.2 to 25.1	**23.3 to 25.3**	23.6 to 25.8	**25.3 to 25.9**	26.0 to 27.0

1 There are other levels of pension increase which apply to particular periods of membership.

2 Only the discount rate is relevant to the Admitted Body schemes

3 This does not apply to the Admitted Body schemes

The assumptions used for the Capita scheme are tailored for each member. The assumptions adopted make allowance for an increase in the longevity in the future. The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years time is derived from non-pensioner membership.

Sensitivity Analysis

The table below shows how the value of the defined benefit obligations would change if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2014 actuarial assumptions	Capita scheme £m	Other schemes £m
0.1% increase in discount rate	**(21.0)**	**(1.4)**
0.1% change in salary increases	**1.0**	**–**
0.1% change in inflation (and related assumptions)	**15.0**	**1.3**
1 year increase in life expectancy	**26.0**	**1.7**

The total employer contributions to the defined benefit pension schemes in 2015 are estimated to be £30m in respect of the Capita scheme and £6m in respect of the 'Other' schemes.

33 Related party transactions

Compensation of key management personnel

	2014 £m	2013 £m
Short term employment benefits	**9.0**	8.1
Pension	**0.2**	0.2
Share based payments	**6.8**	6.0
	16.0	14.3

Gains on share options exercised in the year by Capita plc executive directors were £6.6m (2013: £5.2m) and by key management personnel £2.1m (2013: £1.1m), totalling £8.7m (2013: £6.3m).

33 Related party transactions (continued)

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly owned subsidiary which is not consolidated. The Group received £25.8m of revenue for these services. The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in note 32 – Employee benefits on page 154.

The following companies are substantial shareholders in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority). The number of shares held on 18 February 2015 was as below:

Shareholder	No. of shares	% of voting rights
Marathon Asset Management LLP	22,933,805	3.46
Woodford Investment Management LLP	35,060,250	5.30
Invesco Asset Management	68,877,348	10.41
Veritas Asset Management LLP	48,291,643	7.30
Legal & General Investment Management	19,920,066	3.01

34 Group composition and non-controlling interests

The Group's principal subsidiaries are listed in note 8 of the parent company financial statements on page 171. This includes AXELOS Limited and Entrust Limited which both have 49% non-controlling interests and whose contribution was not material to the Group's financial performance, financial position or cash flow in both 2014 and 2013.

The Group holds a majority of the voting rights in all of these subsidiaries and the directors have determined that, other than the entity commented on below, in each case the Group exercises de facto control.

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Ltd ('DCC'), a wholly owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. The Group have assessed whether they have control over DCC as required under IFRS 10. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited (given the restrictions in the license). That power is held by the board of DCC where the Group has minority representation in compliance with the licence. The Group has therefore not consolidated DCC within its Group accounts. The disclosure of related party transactions with DCC is included in note 33 to these financial statements.

35 Post balance sheet event

Subsequent to the balance sheet date, the Group is in the process of acquiring avocis, a leading provider of customer contact management services in Germany, Switzerland and Austria, for a consideration of £157m on a cash/debt free basis.

On 28 January 2015, the Group completed the acquisition of the Constructionline business, which specialises in procurement and supply chain management services, for a consideration of £35m on a cash/debt free basis.

Statement of Directors' responsibility

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

- 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;
- 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
- the management report contained in this report includes a fair review of the development and performance of the business and position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

A Parker
Chief Executive

G M Hurst
Group Finance Director

25 February 2015

Independent Auditor's report to the members of Capita plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Capita plc for the year ended 31 December 2014 set out on pages 110 to 160 and 167 to 174. 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 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; 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.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

The risk	Our response
Revenue and profit recognition (Revenue £4,378.1 million, profit before tax £292.4 million) Refer to page 87 (Audit Committee Report), and page 116 (accounting policy notes 2(e) and 2(f)). The contractual arrangements that underpin the measurement of revenue in the period can be complex with significant judgements involved in the assessment of current and future financial performance, including the application of long term contract accounting principles. Judgements impacting the recognition of revenue and resulting profits include, amongst others, those over: – the assessment of the stage of completion, and costs to complete, on long term contract arrangements – interpretation of contract terms and conditions; – the consideration of onerous contract conditions and associated loss provisions; – the allocation of revenue to separately identifiable components within a contractual arrangement; – the recognition and recoverability assessments of contract related assets including those capitalised as direct incremental costs prior to service commencement.	Our audit procedures included testing the controls over the monitoring of contract performance and costs. These controls include the review of contracts' performance by the Group's Executive Board of Directors through the monthly operating board reviews, where the divisional financial director and divisional managing director of each division present details of performance and business developments to the Group's Executive Board Directors. We selected contracts entered into by the Group based on quantitative factors (for example, those with the greatest impact on the Group's financial results, or with the largest contract assets recognised) and qualitative factors (for example, new contracts entered into during the financial year or where the payment profile may not reflect the timing of revenue recognition). For each of those contracts we challenged the Group's judgements regarding the appropriate timing of the revenue recognition, including where long term contract accounting was applied. We also challenged the Group's judgements regarding whether the contracts were onerous and whether contract related assets were recoverable. Our audit procedures included the following: – obtaining and inspecting the contractual agreements; – obtaining the contracts forecasts and comparing the assumptions underpinning them to contract terms, and where relevant inspecting correspondence with customers and other parties; and – comparing contract forecasts to past performance versus contractual targets.

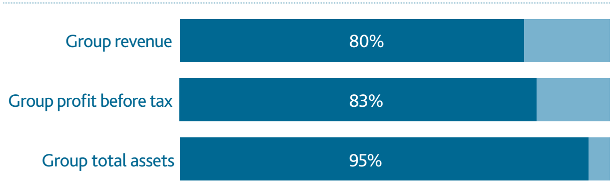
Risk	Our response
Acquisition accounting (total fair value to Group recognised on acquisition, £378.3 million) Refer to page 88 (Audit Committee Report), page 117 (accounting policy note 2(j) and pages 135 to 137 (financial disclosures in note 17). During the year the Group acquired businesses for a total consideration of £378.3 million. Judgement is required over the fair value of the assets and liabilities acquired. We consider these estimates to be significant audit risks because of the impact the acquisitions have on the financial statements, and the inherent judgement involved in estimating the fair value of the assets and liabilities acquired.	Our audit procedures included considering a selection of acquisitions made during the year based on quantitative and qualitative factors. The acquisitions selected included those acquisitions with the greatest impact on the Group's financial results, and those containing the greatest degree of judgement. For each of these acquisitions: – we challenged the key assumptions and methodologies used by the Group to identify the identifiable assets and liabilities acquired and determine their fair values; – we discussed these with the Group and corroborated the explanations provided by comparing these assumptions to market data, our past experience of similar transactions, and the Group's business plan supporting the acquisition; – where available, we compared the amounts recognised to supporting external documentation; – we considered the appropriateness of the accounting for significant fair value adjustments in subsequent periods with reference to the acquisition accounting standard, and considered the presentation and disclosure of material adjustments in the financial statements; and – we have considered the adequacy of the disclosure of acquisitions in the accounts.
Carrying value of intangible assets and goodwill £2,619.4 million Refer to page 88 (Audit Committee Report), page 118 (accounting policy note 2(k)) and pages 132 to 134 (financial disclosures in note 14 and 15). We consider the impairment of intangible assets and goodwill to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability. Furthermore, the Group disposed of its occupational health business in the year. The loss on disposal calculation requires judgement over the allocation of goodwill and intangible assets to the disposed business. The risk is that the loss recorded on disposal does not accurately reflect the allocable intangible assets of the business.	Our audit procedures included detailed testing of the Group's impairment assessment over the carrying value of intangible assets, including goodwill, and performing the following procedures: – we compared the total amount of discounted cash flows as per the Group's calculations with reference to the Group's market capitalisation; – we tested the integrity of the Group's discounted cash flow model; – we assessed the appropriateness of any changes in the composition of cash generating units with reference to our understanding of the business; – we evaluated the cash flows used in the model compared to the output of the Group's budgeting process and against the understanding we obtained about the business through our audit, and determined if these cash flows were reasonable; – we used external data and our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rates; – we performed sensitivity and break-even analyses for these key inputs and assumptions, and identified those cash generating units we consider most sensitive to impairment; – we compared the Group's calculations of the loss on the disposal of the occupational health business to our expectations based on the relative fair value of the disposed business; and – we assessed the Group's disclosures related to the sensitivity of the outcome of their assessment to ensure that these disclosures reflect the risks identified. In particular, for the Group's Insurance Services cash generating unit, we have considered the disclosure provided.
Items disclosed as 'non-underlying'. Non-underlying loss before tax on business disposals £24.9 million and non-underlying loss before tax on other items £218.4 million Refer to page 88 (Audit Committee Report), page 114 (accounting policy note 2) and pages 122, 123 and 128 (financial disclosures in notes 4, 5 and 9). The Group separately presents certain income and expenditure as 'non-underlying' on the face of the income statement. 'Non-underlying' items are not defined by IFRSs, as adopted by the European Union, and therefore judgement is required by the Directors to identify such items as 'non-underlying' and to maintain the comparability of results with previous years and in accordance with the Group's accounting policy. Failure to disclose clearly the nature and impact of material 'non-underlying' earnings may distort the reader's view of the financial result in the year.	Our audit procedures included the following: – we made enquiries of the directors, inspected and challenged the nature of items included within 'non- underlying' and agreed their respective balances to supporting documentation, and to third party correspondence where appropriate; – we assessed the consistency of the items classified as 'non-underlying' year on year and in accordance with the Group's accounting policy; and – we considered the adequacy of the Group's disclosures made relating to 'non-underlying' items, specifically as included within notes 4, 5 and 9 to the financial statements.

Independent Auditor's report to the members of Capita plc only continued

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £18.0 million. This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. Materiality represents 6.2% of Group profit before tax and 5.3% of Group profit before tax adjusted for the loss on business disposal and Asset Services settlement charges as presented in notes 4 and 5 to the financial statements.

% covered by Group procedures



We agreed with the audit committee to report to it all individual uncorrected misstatements we identified through our audit with a profit impact in excess of £0.9 million and a balance sheet impact in excess of £13.5 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at 25 key reporting components in the United Kingdom and Guernsey and by the group audit team over 2 key components in the United Kingdom. These procedures covered approximately 80% of total Group revenue; 83% of Group profit before taxation; and 95% of total Group assets.

The Group audit team approved the components' audit materiality levels, which ranged from £0.3 million to £9.0 million, having regard to the mix of size and risk profile of the Group across the components.

Detailed audit instructions were sent to the component auditors. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. Meetings were also held with the auditors at all locations.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

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

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

– we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or

– the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

– the parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

– certain disclosures of directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

– the directors' statement, set out on page 79, in relation to going concern; and

– the part of the corporate governance statement on page 73 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 82, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Sean McCallion (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

25 February 2015

Five year summary

for the year ended 31 December 2014

Group balance sheet	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Non-current assets	**3,332.4**	2,994.5	2,605.3	2,518.7	2,011.6
Current assets	**1,579.9**	1,607.6	1,710.6	1,018.8	848.7
	4,912.3	4,602.1	4,315.9	3,537.5	2,860.3
Liabilities	**(3,885.2)**	(3,590.9)	(3,359.2)	(2,949.7)	(2,307.2)
Provision for liabilities and charges	**(111.6)**	(114.9)	(78.6)	(63.7)	(57.6)
	915.5	896.3	878.1	524.1	495.5
Capital and reserves	**915.5**	896.3	878.1	524.1	495.5

Group income statement	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Turnover	**4,378.1**	3,896.2	3,351.8	2,930.2	2,744.0
Underlying operating profit	**576.3**	516.9	466.7	417.0	386.4
Other income/(expense)	**–**	–	–	(0.2)	0.9
Net interest payable	**(40.6)**	(41.9)	(49.7)	(40.2)	(31.6)
Underlying profit before taxation	**535.7**	475.0	417.0	376.6	355.7
Intangible amortisation	**(147.1)**	(122.2)	(95.3)	(67.7)	(41.3)
Asset Services settlement	**(28.4)**	(1.7)	–	–	–
Professional fees and stamp duty on acquisitions	**(14.2)**	(14.3)	(10.3)	(15.4)	(6.5)
Goodwill impairment net of contingent consideration movements	**9.4**	(1.7)	(10.2)	11.2	–
Impairment of Optima investment loan	**–**	–	(15.0)	–	–
Business disposal/closure costs	**(7.1)**	(64.6)	–	–	–
Financial instruments – mark to market	**(36.3)**	25.1	(8.7)	(7.1)	(6.6)
Loss on business disposal	**(17.8)**	(82.1)	–	–	–
Derivatives credit risk – mark to market	**0.3**	1.5	3.9	(3.3)	–
Discount unwind on public sector subsidiary partnership payment	**(2.1)**	–	–	–	–
Taxation	**(52.5)**	(43.1)	(52.0)	(62.7)	(72.5)
Profit after taxation	**239.9**	171.9	229.4	231.6	228.8
Basic earnings per share – underlying	**65.15p**	59.40p	52.12p	47.44p	43.97p
Basic earnings per share – after non-underlying	**35.79p**	27.05p	36.04p	38.11p	37.43p
Diluted earnings per share – underlying	**64.58p**	58.71p	51.55p	47.33p	43.47p
Diluted earnings per share – after non-underlying	**35.48p**	26.74p	35.65p	38.02p	37.00p
Dividend per ordinary share	**29.2p**	26.5p	23.5p	21.4p	20.0p

Company balance sheet
As at 31 December 2014

	Notes	2014 £m	2013 £m
Fixed assets			
Intangible assets	5	**13.0**	–
Tangible assets	6	**16.9**	17.0
Investments	8	**310.9**	339.7
		340.8	356.7
Current assets			
Trade investments	8	**0.1**	0.1
Financial assets	7	**–**	0.1
Debtors due within 1 year	9	**909.2**	790.1
Debtors due after more than 1 year	9	**168.8**	125.3
Cash		**34.8**	118.0
		1,112.9	1,033.6
Creditors: amounts falling due within 1 year	10	**256.6**	119.0
Net current assets		**856.3**	914.6
Total assets less current liabilities		**1,197.1**	1,271.3
Creditors: amounts falling due after more than 1 year	10	**270.1**	270.1
		927.0	1,001.2
Capital and reserves			
Called up share capital	12	**13.8**	13.8
Employee benefit trust and treasury shares	13	**(0.3)**	(0.4)
Share premium account	13	**499.0**	491.2
Capital redemption reserve	13	**1.8**	1.8
Merger reserve	13	**44.6**	44.6
Profit and loss account	13	**368.1**	450.2
		927.0	1,001.2

The accounts were approved by the Board of Directors on 25 February 2015 and signed on its behalf by:

A Parker
Chief Executive

G M Hurst
Group Finance Director

Company registered number: 2081330

25 February 2015

Notes to the accounts

1 Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. There were no new Financial Reporting Standards issued by the UK Financial Reporting Council (FRC) which were required to be adopted in the year.

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.

(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.

1 Accounting policies (continued)

(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

	2014 £m	2013 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	**(0.6)**	(0.7)
Share based payments	**3.3**	3.2
Cash flow hedges	**3.9**	6.4
Fixed rate interest rate swaps	**12.7**	5.3
Provisions	**0.8**	0.7
Included in debtors (note 9)	**20.1**	14.9

Notes to the accounts continued

3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £87.4m (2013: £299.5m).

4 Dividends

	2014 £m	2013 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2013 paid: 17.8p per share (2012: 15.6p per share)	**117.2**	102.1
Interim for 2014 paid: 9.6p per share (2013: 8.7p per share)	**63.3**	57.0
	180.5	159.1
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2014: 19.6p per share (2013: 17.8p per share)	**129.6**	116.9

5 Intangible assets

	Capitalised software development £m	Other intangibles £m	Total £m
Cost			
1 January 2014	–	–	–
Additions	**0.1**	**12.8**	**12.9**
Re-class from tangible fixed assets	**–**	**0.2**	**0.2**
31 December 2014	**0.1**	**13.0**	**13.1**
Amortisation			
1 January 2014	–	–	–
Charge for year	**–**	**0.1**	**0.1**
31 December 2014	**–**	**0.1**	**0.1**
Net book value at:			
1 January 2014	–	–	–
31 December 2014	**0.1**	**12.9**	**13.0**

6 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2014	32.7	0.2	1.1	34.0
Additions	**3.6**	**–**	**0.1**	**3.7**
Re-class to intangible assets	**(0.2)**	**–**	**–**	**(0.2)**
Asset retirements	**(3.1)**	**(0.1)**	**–**	**(3.2)**
31 December 2014	**33.0**	**0.1**	**1.2**	**34.3**
Depreciation				
1 January 2014	16.2	0.1	0.7	17.0
Charge for year	**3.4**	**–**	**0.2**	**3.6**
Asset retirements	**(3.1)**	**(0.1)**	**–**	**(3.2)**
31 December 2014	**16.5**	**–**	**0.9**	**17.4**
Net book value at:				
1 January 2014	16.5	0.1	0.4	17.0
31 December 2014	**16.5**	**0.1**	**0.3**	**16.9**

7 Financial assets

Current	2014 £m	2013 £m
Cash flow hedges	**–**	0.1

8 Investments

(a) Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2014	339.7
Additions	**30.0**
Disposals	**(58.8)**
31 December 2014	**310.9**

During the year, the Company increased its investment in Capita Life & Pensions Regulated Services Limited by £30.0m. During the year, the Company transferred its investment in ParkingEye Limited to another subsidiary undertaking.

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[1]	England	100%	Ordinary £1 shares
Capita Business Services Limited*[2]	England	100%	Ordinary £1 shares
Capita Customer Management Limited*[2]	England	100%	Ordinary £1 shares
Capita Employee Benefits Limited*[2]	England	100%	Ordinary £1 shares
Capita Employee Benefits (Consulting) Limited*[2]	England	100%	Ordinary £1 shares
Capita International Limited[2]	England	100%	Ordinary £1 shares
Capita IT Services Limited*[2]	Scotland	100%	Ordinary £1 shares
Capita IT Services (BSF) Limited*[2]	England	100%	Ordinary £1 shares
Capita Life & Pensions Regulated Services Limited[2]	England	100%	Ordinary £1 shares
Capita Life & Pensions Services Limited[2]	England	100%	Ordinary £1 shares
Capita Managed IT Solutions Limited*[2]	Northern Ireland	100%	Ordinary £1 shares
Capita Medical Reporting Limited*[2]	England	100%	Ordinary £1 shares
Capita Property and Infrastructure Limited*[2]	England	100%	Ordinary £1 shares
Capita Registrars Limited*[2]	England	100%	Ordinary £1 shares
Capita Retail Financial Services Limited*[2]	England	100%	Ordinary £1 shares
Capita Resourcing Limited*[2]	England	100%	Ordinary £1 shares
Capita Secure Information Solutions Limited*[2]	England	100%	Ordinary £1 shares
Capita Trust Company Limited*[2]	England	100%	Ordinary £1 shares
AMT-SYBEX Limited*[2]	England	100%	Ordinary £1 shares
Fish Administration Limited*[2]	England	100%	Ordinary £1 shares
Knowledgepool Group Limited*[2]	England	100%	Ordinary £1 shares
ParkingEye Limited*[2]	England	100%	Ordinary £1 shares
Service Birmingham Limited*[2]	England	100%	Ordinary £1 shares
Tascor Services Limited*[2]	England	100%	Ordinary £1 shares
Updata Infrastucture (UK) Limited*[2]	England	100%	Ordinary £0.001 shares

1 Investing holding company.

2 Outsourcing services company.

* Indirectly held.

Details of all subsidiaries, as required under Section 409 of the Companies Act 2006, will be annexed to the next Annual Return of the Company filed with the UK Registrar of Companies.

(b) Trade investments

	£m
At 1 January 2014 and 31 December 2014	**0.1**

Notes to the accounts continued

9 Debtors

Debtors due within 1 year	2014 £m	2013 £m
Amounts owed by subsidiary undertakings	**823.3**	721.8
Taxation recoverable	**55.3**	47.6
Other debtors	**3.8**	14.0
Currency swap – USD bonds	**13.2**	6.7
Interest rate swap	**1.3**	–
Prepayments and accrued income	**12.3**	–
	909.2	790.1

Debtors due beyond 1 year	2014 £m	2013 £m
Prepayments and accrued income	**3.0**	1.0
Deferred taxation	**20.1**	14.9
Currency swap	**137.2**	101.6
Interest rate swap	**8.5**	7.8
	168.8	125.3

10 Creditors

Amounts falling due within 1 year	2014 £m	2013 £m
Bank overdraft	**193.2**	55.3
Trade creditors	**1.9**	1.7
Other creditors	**0.7**	0.1
Cash flow hedges	**3.4**	6.5
Fixed rate interest rate swaps	**0.4**	0.2
Bonds	**24.9**	–
Other taxes and social security	**1.6**	1.7
Provisions	**5.4**	7.6
Accruals and deferred income	**25.1**	22.0
Deferred consideration payable	**–**	23.9
	256.6	119.0

Amounts falling due after more than 1 year	2014 £m	2013 £m
Bonds	**183.1**	204.7
Currency swaps	**0.6**	13.5
Fixed rate interest rate swaps	**62.9**	26.4
Cash flow hedges	**16.5**	25.5
Provisions	**7.0**	–
	270.1	270.1

The bonds are unsecured. The bank overdraft is guaranteed by cash held by other members of the Group.

11 Deferred taxation

	£m
At 1 January 2014	14.9
Utilisation of provisions in the year	**5.2**
At 31 December 2014 – included in debtors (note 9)	**20.1**

12 Share capital

	2014 Million	2013 Million	2014 £m	2013 £m
Allotted, called up and fully paid				
Ordinary shares of 2 1⁄15p each				
At 1 January	**669.8**	668.4	**13.8**	13.8
Issue of share capital	**–**	0.4	**–**	–
Issued on exercise of share options	**0.2**	1.0	**–**	–
At 31 December	**670.0**	669.8	**13.8**	13.8

During the year, 0.2m (2013: 1.0m) ordinary 2 1⁄15p shares with an aggregate nominal value of £4,224 (2013: £20,160) were issued under share option schemes for a total consideration of £1.2m (2013: £6.3m).

In October 2013, the Company issued 0.4m ordinary shares as part of the acquisition of ParkingEye Limited for a consideration of £4.1m.

12 Share capital (continued)

Treasury shares

	2014 Million	2013 Million	2014 £m	2013 £m
Ordinary shares of 2 1/15p each				
At 1 January	11.1	13.4	0.3	0.3
Shares allotted in the year	(2.6)	(2.3)	(0.1)	–
At 31 December	8.5	11.1	0.2	0.3

During the year the Group allotted 2.6m (2013: 2.3m) treasury shares with a nominal value of £53,833 (2013: £47,468). The total consideration received in respect of these shares was £6.7m (2013: £7.6m).

Employee benefit trust shares

	2014 Million	2013 Million	2014 £m	2013 £m
Ordinary shares of 2 1/15p each				
At 1 January	2.5	3.3	0.1	0.1
Shares allotted in the year	(0.3)	(0.8)	–	–
At 31 December	2.2	2.5	0.1	0.1

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 0.3m (2013: 0.8m) ordinary 2 1/15p shares with an aggregate nominal value of £6,597 (2013: £16,337) to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £nil (2013: £2.8m).

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

13 Reserves

Company	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Employee benefit trust and treasury shares £m	Profit and loss account £m
At 1 January 2014	491.2	1.8	44.6	(0.4)	450.2
Shares issued	7.8	–	–	0.1	–
Share based payment	–	–	–	–	11.0
Equity dividends paid	–	–	–	–	(180.5)
Retained profit for the year	–	–	–	–	87.4
At 31 December 2014	499.0	1.8	44.6	(0.3)	368.1

14 Reconciliation of movements in shareholders' funds

	2014 £m	2013 £m
Profit for the year	87.4	299.5
Dividends	(180.5)	(159.1)
	(93.1)	140.4
Share based payment	11.0	10.5
Shares issued	7.9	20.8
Net movement in shareholders' funds	(74.2)	171.7
Opening shareholders' funds	1,001.2	829.5
Closing shareholders' funds	927.0	1,001.2

15 Commitments and contingent liabilities

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

	2014		2013	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire:				
In 2 to 5 years inclusive	0.8	0.2	0.8	0.2

(b) The Company has a committed Revolving Credit Facility amounting to £600m (2013: £425m), of which £nil had been drawn down at 31 December 2014 (2013: £nil drawn down).

Notes to the accounts continued

16 Borrowings

	2014 £m	2013 £m
Bonds	**208.0**	204.7
Repayments fall due as follows:		
Within 1 year:		
Bonds	**24.9**	–
	24.9	–
After more than 1 year:		
In more than 1 year but not more than 2 years	**183.1**	–
In more than 2 years but not more than 5 years	**–**	204.7
	183.1	204.7
Total borrowings	**208.0**	204.7

The Company has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005[2]				
Series B	0.525 above 6m LIBOR	GBP	25.0	28 September 2015
Total of sterling denominated bonds			25.0	

Bond	Interest rate %	Denomination	US$m	Maturity
Issued 2005[1,2]				
Series B	5.88	US$	130.0	28 June 2016
Series B	5.81	US$	74.0	13 September 2016
Series C	5.77	US$	60.0	13 September 2016
Total of US$ denominated bonds			264.0	

1 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.

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

All series are unsecured.

17 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 Service Birmingham Limited for £1.4m (2013: £0.5m). In addition, the Company purchased goods/services in the normal course of business for £0.3m (2013: £0.1m). At the balance sheet date, the net amount receivable from Service Birmingham Limited was £0.1m (2013: £0.0m).

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.9m (2013: £0.1m). In addition, the Company purchased goods/services in the normal course of business for £0.1m (2013: £0.0m). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £0.9m (2012: £0.0m).

During the year, the Company sold goods/services in the normal course of business to AXELOS Limited for £0.1m (2013: £0.1m). In addition, the Company purchased goods/services in the normal course of business for £0.0m (2013: £0.0m). At the balance sheet date, the net amount receivable from AXELOS Limited was £0.0m (2013: £0.0m).

During the year, the Company sold goods/services in the normal course of business to Urban Vision Limited for £0.1m (2013: £0.0m). In addition, the Company purchased goods/services in the normal course of business for £0.0m (2013: £0.0m). At the balance sheet date, the net amount receivable from Urban Vision Limited was £0.0m (2013: £0.0m).

18 Pension costs

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £2.9m (2013: £2.3m).

19 Share based payment

The Company operates several share based payment plans and details of the schemes are disclosed in note 28 of the Group's consolidated financial statements on page 151.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2014 was £11.0m (2013: £10.5m), 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 £5.1m (2013: £5.3m).

Principal Group investments

AMT-SYBEX Limited[1]
Provide enterprise software and associated services.

Capita Holdings Limited
Holding and investment company.

Capita Business Services Limited[1]
Providing an integrated range of business process and customer management services to clients in the UK and Ireland.

Capita Customer Management Limited[1]
Providing business process outsourcing and customer management services.

Capita Employee Benefits Limited[1]
Providing actuarial, pension consultancy and administrative services.

Capita Employee Benefits (Consulting) Limited[1]
Providing employee benefit advice, communication and administration services.

Capita International Limited
Provider of administration related services to the business process outsourcing sector.

Capita IT Services Limited[1]
Designing, providing and managing networked computing and communication systems.

Capita IT Services (BSF) Limited[1]
Provider of educational ICT services.

Capita Life & Pensions Services 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.

Capita Managed IT Solutions Limited[1]
Provider of IT management, cloud-based services, and IT infrastructure services.

Capita Medical Reporting Limited[1]
Medical services administration provider.

Capita Property and Infrastructure Limited[1]
Providing a comprehensive range of project management, telecommunications engineering and construction related consultancy services.

Capita Registrars Limited[1]
Share registration and employee share scheme administration services.

Capita Retail Financial Services Limited[1]
Provider of business process outsourcing for business support functions.

Capita Resourcing Limited[1]
Employee recruitment services.

Capita Secure Information Solutions Limited[1]
Provider of secure IT information solutions.

Capita Trust Company Limited[1]
Corporate trustees and providers of trust and administration services.

Fish Administration Limited[1]
Providing the sale of insurance services.

Service Birmingham Limited[1]
Providing ICT and business transformation outsourcing services to the public sector.

Knowledgepool Group Limited[1]
Provider of managed learning services and consultancy.

ParkingEye Limited[1]
Provider of car park management services.

Tascor Services Limited[1]
Provider of business process outsourcing to the security and justice sector.

Updata Infrastructure (UK) Limited[1]
Provider of managed wide area networks and associated services to public sector and local authority organisations.

1 Indirectly held.

Additional information for shareholders

e-communications for shareholders

Help us communicate with you in a greener, more efficient and cost-effective way by switching from postal to email communications. Registering for e-communications enables shareholders to:

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

Registering for e-communications is very straightforward. Go to www.capitashares.co.uk

Key dates for your diary

Annual General Meeting (AGM): 12 May 2015

The AGM will be held at 11.00 am on Tuesday 12 May 2015 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 2015

Half-year results: 29 July 2015

Get in touch

Shareholder enquiries

We aim to communicate effectively with our shareholders, via our website www.capita.co.uk/investors. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual reports should contact Capita's investor relations team on 020 7799 1525 or email: corporate@capita.co.uk.

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Capita Asset Services, by email: shareholderenquiries@capita.co.uk or at the address below:

Capita Asset Services
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 8.30 am to 5.30 pm, 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 or by telephone: 0871 664 0454 (UK calls cost 10p per minute plus network extras, lines are open 8.00 am to 4.30 pm, 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 1052686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

Dividend reinvestment plan (DRIP)

We offer a DRIP to enable shareholders to purchase additional Capita shares with their whole cash dividend. These further shares would be bought in the market on behalf of shareholders under a special low-cost dealing arrangement. Further details of the DRIP can be found online. Please visit the shareholder services section at www.capita.co.uk/investors or call Capita Asset Services on 0871 664 0381 (UK calls cost 10p per minute plus network extras, lines are open 9.00 am to 5.30 pm, Monday to Friday).

International dividend payment service

Capita Asset Services has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your bank account, or alternatively, we can send you a currency draft. For further information call Capita Asset Services on 0871 664 0385 (UK calls cost 10p per minute plus network extras, lines are open 9.00 am to 5.30 pm, Monday to Friday).

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