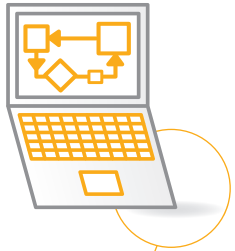
CAPITA



A detailed approach to service delivery

The Capita Group Plc Annual Report and Accounts 2010

Directors' report

The Directors present the Annual Report for the year ended 31 December 2010 which includes the business review, governance and audited Group accounts for the year. Pages 01 to 90 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.

Cautionary statement regarding forward-looking statements

This Annual Report has been prepared for the members of the Company and no one else. The Company, its Directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. This Annual Report contains certain forward-looking statements with respect to the principal risks and uncertainties facing the Company. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

What's in the report

A snapshot of our business

We deliver services that generate real value for our clients and their customers

See our services in action

Delivering for the customer
Driving efficiency and cost improvement whilst enhancing customer experiences.

Explore our partnership with AXA on pages 20 and 21.

Empowering frontline employees
Our improvements to Harrow Council's systems have given employees the tools to do their jobs more effectively.

Explore our Harrow partnership on pages 30 and 31.

Improving local services
We're delivering significant cost savings to Birmingham City Council while helping to improve services for citizens.

Explore our Service Birmingham partnership on pages 40 and 41.

Accessing education online
We've helped low-income families across England gain access to a computer and the internet at home.

Explore the service we delivered for Becta on pages 52 and 53.

Our eye for detail, practical innovation and experience enable us to reshape services that both answer the needs of our clients and deliver quality, responsive services to the public.

These same qualities underpin the way we manage and grow our business, allowing us to deliver value to all our stakeholders.

Our clients benefit from Capita's expertise, innovation and extensive resources and infrastructure. When they transfer their back office and frontline customer services to us we sign up to delivering an improved service, at a defined cost, over a long term contract.

We use customer insight and our ability to better manage people, processes and IT to achieve a more efficient alignment of resources and a better customer experience.

Our innovative service solutions and record of consistent operational delivery have helped to fuel our growth and position Capita as the leading provider of outsourced and professional support services, principally in the UK and Ireland.

We operate in growth markets…

Capita focuses on and leads the Business Process Outsourcing (BPO) market in the UK where there are significant opportunities for growth. Our bid pipeline of new business opportunities stands at a historic high, driven by public and private sector organisations increasingly seeking to gain efficiencies, flexibility and improved service delivery.

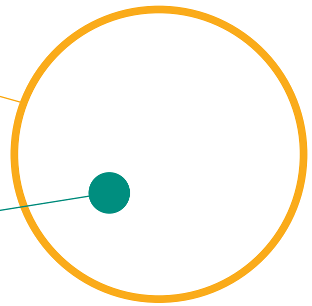
Bid pipeline*

Feb 2011: **£4.7bn, 30 bids**

(Feb 2010: £3.7bn, 26 bids)

Outsourced and potential UK BPO market:

£117bn**
market



£7.8bn
currently outsourced**

We work with clients across the public and private sectors in 9 chosen markets. Our turnover is derived 50/50 from the private and public sectors.

Private Sector: life and pensions, insurance, financial services and other corporates.

Public Sector: local government, central government, education, health and transport.

And we constantly explore new markets where we can add value.

…with unique scale and breadth of expertise

Capita has grown steadily over the past 25 years, both organically and through acquisitions, and we now have 37,000 people at over 350 business sites across the UK, the Channel Islands, Europe and India.

We use our expertise, infrastructure and the scale of our operations to drive down costs and add value to our clients' operations.

Our extensive network of business centres – onshore, nearshore and offshore – allows us to offer our clients flexible service solutions that meet their customers' expectations and help them stay at the forefront of their markets.

Our business centre network:

53 Onshore: UK

6 Nearshore: Ireland, Channel Islands, Europe

5 Offshore: India

64
business centres

* Where we have been shortlisted to the last 4 bidders or fewer. All bids are capped at £500m.
** IDC

A consistent business model drives our growth…

We generate profitable growth both organically and through acquisitions.

Organic growth is generated by a centralised major sales team alongside sales teams in each of our businesses. We seek to secure long term business relationships, adding value to our clients' operations while generating high quality recurring revenues and delivering a fair return for Capita.

Acquiring small to medium sized companies allows us to add further expertise or scale to our operations or helps us to enter new markets. We smoothly integrate the acquired business into our operations, generating synergies and additional value for the Group.

18 major contracts and extensions

2010: 18 major contracts and extensions worth a total of:

£795m

(2009: 15 contracts, total of £1bn)

2010: Total spent on 12 acquisitions:

£301m

(2009: 12 acquisitions: £177.5m)

…and creates value for all our stakeholders

We seek to build long term, mutually beneficial relationships capable of creating value for all our stakeholders – our shareholders, clients, employees, suppliers and the communities in which we work.

With good financial controls, careful risk management and effective governance, we work to a clear set of KPI targets to grow the business at a rate at which we can consistently deliver what we promise and create a sustainable business.

Our performance in 2010 illustrates our ability to continue to grow the business profitably and deliver value to our shareholders.

2010 progress:

Profits before tax	+12%
Earnings per share	+16%
Dividends per share	+19%

Continued growth

Our KPIs and performance in 2010

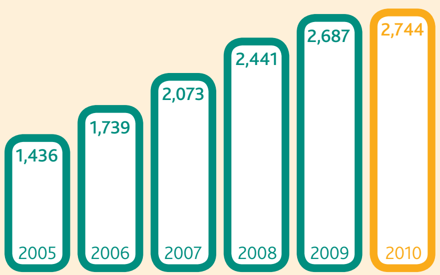
Another year of good progress across our financial and non-financial KPIs

Our results

Turnover (£m)

£2,744m +2%

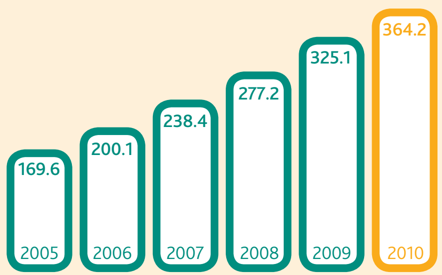
5 year compound growth **14%**



Underlying profit before tax (£m)*

£364.2m +12%

5 year compound growth **17%**

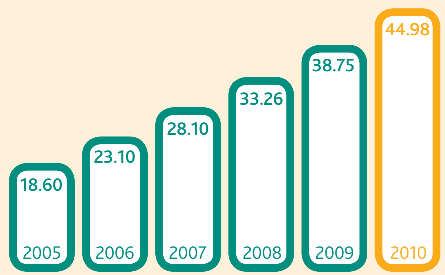


*Excludes items which the Group treats as non-underlying, see notes 2 and 4 on pages 96 and 101.

Underlying earnings per share (p)*

44.98p +16%

5 year compound growth **19%**

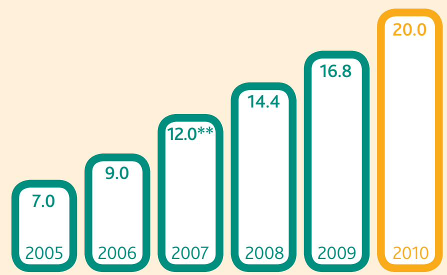


*Excludes items which the Group treats as non-underlying, see notes 2 and 4 on pages 96 and 101.

Total dividend per share (p)

20.0p +19%

5 year compound growth **23%**



**Excluding 25p special dividend.

Our principal key performance indicators (KPIs): 2010 progress

Earnings per share
Achieve long term steady growth in EPS

44.98p

2009: **38.75p**

Operating margin
Maintain and strengthen margin

14.40%

2009: **13.31%**

Free cash flow
Maintain strong free underlying cash flow

£241m

2009: **£280m**

Return on capital employed (ROCE)
Achieve ROCE which exceeds our cost of capital

20.6% (WACC*: 7.7%)

2009: **20.6%** (WACC*: 7.9%)

Economic profit
Achieve steadily increasing economic profit

£187m

2009: **£162m**

Gearing – interest cover
Maintain an efficient capital structure, with relatively low gearing

12.4x

2009: **10.9x**

Capital expenditure
Keep at or below 4% of revenue

3.6%

2009: **2.5%**

Shareholder value
Grow dividends at least in line with earnings – annual growth of total dividends

19%

2009: **17%**

Controlling our environmental impacts
Continue to measure and assess our carbon footprint (tonnes CO_2eq)

81,112

2009: **79,212**

Retaining people – Senior managers
Maintain high retention rates for senior managers (salaries exceeding £90k p.a.)

84%

2009: **88%**

Retaining people – Overall employees
Maintain overall employee retention at or above industry average (2010: 86.5%, 2009: 84.3%)**

83%

2009: **84%**

* Weighted Average Cost of Capital
** CIPD 2010 and 2009

Good performance and prospects

Key points

- Major contract wins and renewals in 2010 of £795m
- £244m major new contracts and renewals secured in first 7 weeks 2011
- Bid pipeline, February 2011, stood at a record £4.7bn (Feb 2010: £3.7bn); with increasingly active markets
- Broadened our operational capability and reach: £301m spent on 12 acquisitions in 2010
- Expanded our Indian capabilities and now creating a new service delivery capability in Continental Europe
- Underlying profits before tax advanced by 12% to £364.2m (2009: £325.1m)
- Continued operating margin progression: increased by 109 basis points to 14.40% (2009: 13.31%)
- Underlying operating cash flow up by 1% to £442m (2009: £437m)
- Earnings per share growth of 16% to 44.98p (2009: 38.75p)
- 19% dividend increase, with dividend cover of 2.25 times.

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

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

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

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

Building value for shareholders

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

The Board is recommending a final dividend of 13.4p per ordinary share (2009: 11.2p), making a total of 20.0p (2009: 16.8p) for the year. This represents an increase of 19%. The final dividend will be payable on 23 May 2011 to shareholders on the register at the close of business on 15 April 2011.

In addition to the financial measures reported above, we focus on a number of other key financial measures to ensure we build value for shareholders on a consistent basis over the long term. These are operating margin, cash flow, capital expenditure, return on capital employed, gearing and economic profit. We also focus on maintaining a conservative and efficient capital structure. We have set out our aims and performance regarding these disciplines on pages 34 to 37.

Generating profitable growth

We generate profitable growth by winning business from new and existing customers principally in the UK and Ireland and supplement this by acquiring businesses that broaden our skill base and extend our market reach. In 2010, we gained business across both the public and private sectors and, as a result, the sector split of our revenues remained at 50% private/50% public (2009: 50%/50%).

Organic growth: Overall trading in 2010 remained solid although revenue growth was subdued. Decisions were delayed across both public and private sectors due to the difficult economic climate and the changing political landscape. We also had a higher than normal revenue attrition rate of 6% in 2010. This was due to a number of project completions and several contracts winding down or being taken back in-house. There was a further 2% of revenue reduction due to our decision to dispose of a number of our operations at the end of 2009.

In 2010, we secured and extended 18 major contracts with a total value of £795m (2009: 15 contracts totalling £1.0bn). Details of these contracts are on page 15.

Bid pipeline: Alongside these contract wins, our bid pipeline has been replenished and reflects the quality of business opportunities across our markets. The bid pipeline currently stands at a record £4.7bn (Feb 2010: £3.7bn). Behind this is a prospect list of opportunities which are yet to reach a shortlist stage – this is also at record levels. See page 14.

* Excludes items which the Group treats as non-underlying. See notes 2 and 4 on pages 96 and 101.

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

Stimulating growth through acquisition: In 2010, we have continued our strategy of acquiring small to medium sized companies to widen our skills and knowledge, extend our presence in existing marketplaces or provide a foothold in a new market. In 2010, we completed 12 acquisitions for a total consideration of £301m, and these acquisitions are a valuable springboard for further growth of the Group. Details of these acquisitions are on page 19.

Our market opportunities

In 2010, we commissioned new market research from one of the leading independent industry analysts, IDC. IDC estimates that the total market for BPO in the UK in 2010 was £7.8bn (2009: £7.5bn*) with Capita remaining the clear leader in this enlarged market with 23% market share (2009: 23%*). IDC, has estimated that the market potential for BPO in the UK is £117bn a year. The capacity for long term growth therefore remains substantial and highlights many opportunities for us to assist organisations as they seek the benefits of outsourcing. Details of our market position and the drivers for outsourcing across our 9 chosen markets are on pages 22 to 29.

Increasing our resources and infrastructure

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

We have actively identified high quality candidates and increased the headcount in our major sales team. In 2010, we significantly strengthened our bid teams with 7 additional people focused on leading major contract sales and 9 in senior bid support roles.

We have expanded our operations and capabilities in India as they play an important role in helping us to secure new business and increase the efficiency of our Group operations. Our business centres in India are an integral part of Capita, providing high quality, cost effective English language based services.

We are creating a new service delivery capability in Continental Europe. A number of our existing life and pensions clients are exploring the opportunity to replicate their successful UK partnerships with us in other European territories. We are therefore establishing a multi-lingual shared services business centre in Krakow, Poland, and plan to make this fully operational from early 2012. See page 45.

Group Board

Martin Bolland was appointed Non-Executive Chairman from 1 January 2010 and Paddy Doyle moved to become a Non-Executive Director from 1 March 2010. In May, we appointed Nigel Wilson as Senior Independent Director and in June, appointed Paul Bowtell as an independent Non-Executive Director and Chairman of our Audit Committee.

On 10 January 2011, Vic Gysin and Andy Parker were appointed to the Board as Joint Chief Operating Officers. Simon Pilling stood down as Chief Operating Officer the same day. We believe we have a talented and substantial team in place to support our continued growth. See pages 62 and 63.

Valuing our people

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

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

Paul Pindar Chief Executive

Find out where we achieved Investors in Excellence re-accreditation. Go to pages 40 and 41.

* Restated to give like for like comparisons.

Business review

A clear objective and robust business model drive our growth

A business model directed by our Group Board Executives

From left to right:
Andy Parker Joint Chief Operating Officer
Vic Gysin Joint Chief Operating Officer
Gordon Hurst Group Finance Director
Maggi Bell Business Development Director
Paul Pindar Chief Executive

"Our business objective is clear and straightforward. We focus our efforts on ensuring that Capita is a long term sustainable business that performs consistently so that we can deliver value to all our stakeholders. We balance the needs of our shareholders, clients, employees, suppliers and the communities in which we work.

To ensure that we meet our business objective we have created a robust business model that focuses on 5 core elements:

1. Generating profitable growth
2. Targeting growth markets
3. Controlling and measuring growth
4. Delivering business responsibly
5. Maintaining performance across our divisions

By consistently applying this business model and carefully flexing it to allow for continued and safe growth, we have delivered both sustained strong operational and financial performance and continue to meet the needs of all of our stakeholders.

In the following pages the Capita team provide more detail regarding our business model and how we have performed against our aims and KPIs in 2010."

Paul Pindar Chief Executive

1

Generating profitable growth

We generate profitable growth in 2 ways – organically and through acquisition. As a result, we have grown consistently and operate strongly across both the public and private sectors.

1.1 Organic growth:

Aim: To identify and win business, from new and existing clients principally in the UK and Ireland, that provides long term recurring revenues.

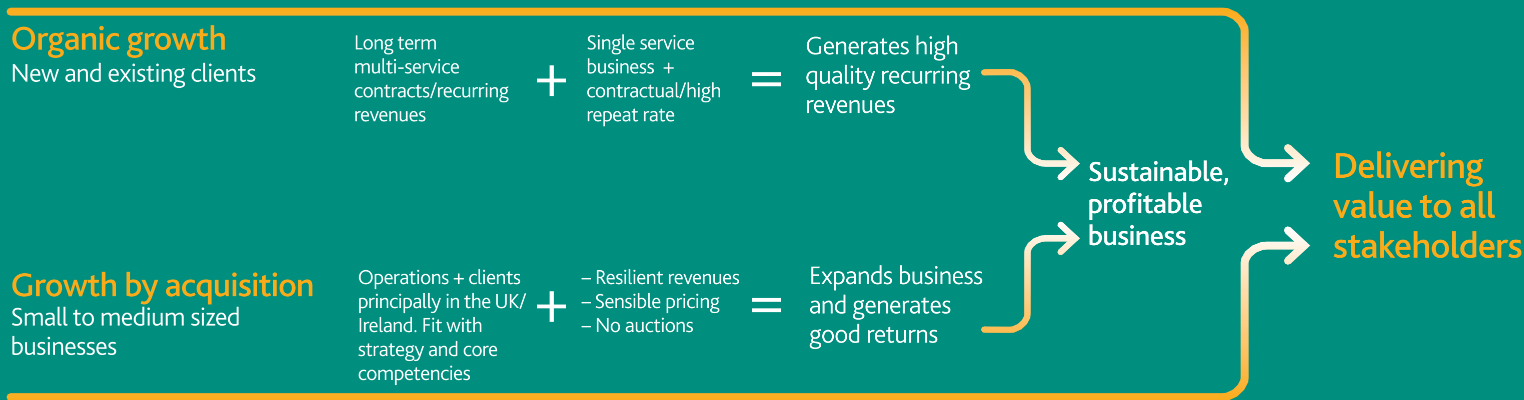
Progress: 18 major contracts worth a total of £795m were secured or extended in 2010.

1.2 Acquisitions:

Aim: To acquire small to medium sized businesses that broaden our skill base and take us into new areas, extending our market reach.

Progress: We spent £301m on 12 acquisitions in 2010.

Our consistent approach to fuelling growth



1.1

Organic growth – securing major contracts and highly recurring business

A large proportion of our organic growth comes through securing:

– high quality, recurring revenues from long term contracts delivering multiple, integrated administration and customer services. These contracts currently average 9 years in length

– single service business that rolls over annually, has a high repeat rate or is secured under medium to long term contracts of 2 to 7 years

– discretionary spend whereby clients request additional services and/or change control requests.

The combination of long term contracts and recurrent business ensures highly visible future revenues.

Progress in 2010

Against a challenging background, the majority of our businesses delivered robust results in 2010. Decisions on major contracts were delayed across both public and private sectors due to the difficult economic climate and the changing political landscape. There was a pause in central government contracts coming out to tender while the UK General Election and a change in administration took place. We also saw a sharp reduction in discretionary spend across our existing contracts and pressures on public spending affected growth in some of our transactional trading activities.

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

In 2010, we secured and extended 18 major contracts with a total value of £795m. (2009: 15 contracts totalling £1bn). In the first 2 months of 2011, we were selected for 5 major contracts and extensions with a total value of £244m.

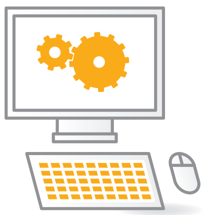
"Our bid pipeline, prospects and suspects lists are all at record levels. To support and convert this wealth of opportunities, we have significantly strengthened our major sales team. This enlarged team will continue to focus on our traditional markets and reach out into new market segments."

Maggi Bell Business Development Director

Find out how we designed and implemented a robust new service in less than 3 months.
Go to pages 52 and 53.

Record bid pipeline – record levels of quality business opportunities

We report on the pipeline twice a year when we announce our half year and full year results. The bid pipeline contains contracts of £10m or above, where we have been shortlisted to the last 4 or fewer: all bids are capped at £500m to prevent very large individual contracts distorting the total.



Discover what was key to one of our transformation programmes.
Go to pages 20 and 21.

Progress in fuelling our growth

In February 2011, our bid pipeline was at a record level of £4.7bn (Feb 2010: £3.7bn) and contained 30 bids. This included bids across many of our markets with the majority in life and pensions, followed by defence and local government. This is a healthy indicator of the growing interest across both the public and private sector to engage with outsourcing and the benefits it can offer.

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

To support and convert this wealth of opportunities we have actively identified high quality candidates and increased the headcount in our major sales team. However, we remain disciplined when selecting bid opportunities to pursue.

Setting our bid success rate against our bid pipeline provides a useful indicator of likely future sales growth. In 2010, we had a win rate of just below 1 in 2.

Selecting new business opportunities

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

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

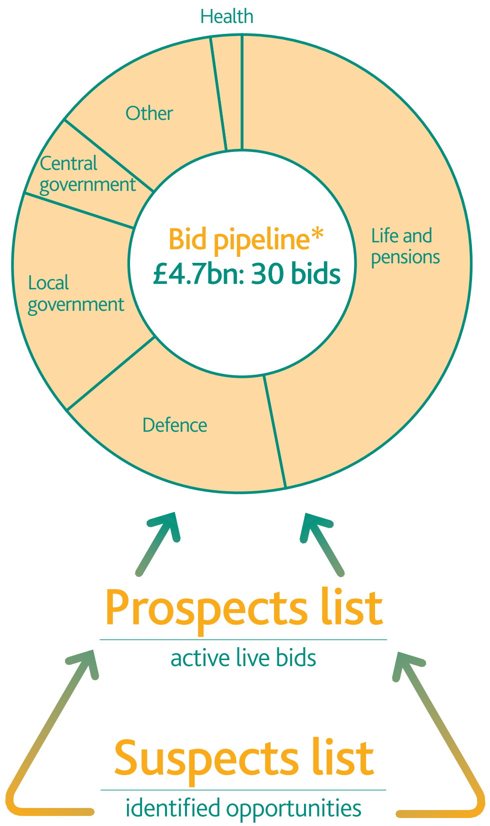
UK public sector contracts are subject to defined procurement processes. EU policy requires 'fair and open competition' and opportunities are formally advertised and notified. In addition, under EU competition law, public sector outsourcing contracts that are already in place must be offered for tender when the initial contract term is complete.

The procurement landscape in 2011

Public sector procurements can take up to 2 years to complete. Government and local authorities are exploring ways to speed up this process as they strive to realise the benefits of outsourcing at a faster pace.

As procurement processes on major bids can be costly in both time and resources, we remain highly selective and disciplined throughout the bid process, only bidding where we see realistic opportunity for a positive working relationship that benefits both the client and the Group.

Fuelling our growth: Major sales opportunities



* Bid pipeline as at 24 February 2011: Shortlisted to 4 bidders or fewer.

Major new contracts and extensions secured in 2010

Total value:

£795m

18 contracts

Major contracts over £50m: Total value £613m, duration 5 to 10 years

Local government
Swindon Borough Council & Southampton City Council
Expansion
Value: £50m
Expansion of strategic partnerships with Southampton and Swindon.

Local government
Harrow Council
New
Value: £50m
10 year duration
Appointed to be the authority's IT infrastructure partner.
Service commenced end November 2010.

Local government
West Sussex County Council
New
Value: £56m
7 year duration
Appointed to be the authority's IT infrastructure partner.
Service commenced September 2010.

Education
Building Schools for the Future (BSF) contracts
New
Value: £97m
ICT and property solutions for BSF programme provided by our IT services and property consultancy businesses.

Insurance
Virgin Money
New
Value: £60m
5 year duration
To provide end-to-end sales support, policy administration and processing services for a new home and motor insurance proposition.
Service commenced January 2011.

Local government
Birmingham City Council (Service Birmingham)
Extension and new services
Value: £300m
10 and 5 year duration
Extension to original contract to provide ICT and contact centre services. Additionally, Service Birmingham will deliver the Council's revenues service.
Extension for 5 years to March 2021. Revenues contract to commence April 2011.

Major contracts under £50m: Total value £182m, duration 19 months to 8 years

Central government
Constructionline
Extension
Government's register of local and national pre-qualified construction and construction-related service providers.
Extension awarded in February 2010.

Central government
DWP Records
Extension
Records and storage contract. Initially awarded in 1999.
Extension awarded in February 2010.

Insurance
Marsh/HSBC
Expansion
To deliver back office functions and processing services to enhance Marsh UK's broking activities to clients across its business.
Announced July 2010.

Insurance
AXA/Sainsbury
New
To provide administration services for Sainsbury's pet insurance offer.
Service commenced end March 2010.

Local government
Nottinghamshire County Council
New
To provide networking, applications and services secured by Synetrix.
Service commenced September 2010.

Education
East Midland Broadband Consortium (embc)
Extension
To provide networking, applications and services secured by Synetrix.
Original contract commenced March 2008. Announced June 2010.

Life and pensions
Aviva (Dublin)
New
To provide life and pensions administration in Ireland.
Service commenced April 2010.

"Capita's strong balance sheet and cash flow reassure clients that their service is in the hands of a stable partner. Our proven record of strong governance and ethical, socially responsible behaviour is also a competitive strength. Together, these elements clearly differentiate us from competitors and are significant barriers to entry for new participants in all our markets."

Gordon Hurst Group Finance Director

We continue to look for:

– clients with whom we can build a strong relationship and deliver real benefits
– clients whose operations or services to be outsourced are primarily UK based or where our delivery models can be effectively replicated internationally
– a defined bid process with clear decision criteria
– fit with our core competencies in service transformation
– a fair risk/reward balance
– limited requirement for capital investment, unless there is a real value proposition for the Group
– acceptable contractual obligations.

If at any stage we feel that conditions have shifted significantly or that any of these criteria are no longer met, we will, after detailed consultation, withdraw from the process. We will not take on excessive risk or output based contracts which are reliant on external factors that are out of our control. It is essential for us to pursue only those contracts that can both meet the clients' expectations and generate reasonable returns for Capita.

Converting opportunities

We manage procurements either centrally or at business level, depending on the size and complexity of the opportunity. Our major sales team pursues complex, long term contracts, usually valued in excess of £50m. It can draw on the resources of the whole Group to tailor solutions to each client's requirements.

Sales teams in each business unit of each division pursue smaller or less complex contracts, usually focused on a single service. Where these are worth over £10m, the major sales team may provide extra support.

Retaining and expanding contracts

As well as securing new business from new clients, we work to renew or expand existing client relationships.

We agree detailed service standards and key performance indicators to measure progress and improvements. As a result, clients find that outsourcing gives them more control over support operations, not less.

Depending on the nature and the size of the contract, we create appropriate governance and client engagement structures to ensure that we are delivering to expectations. On our largest contracts, strategic partnership boards help both parties understand each other's requirements better and ensure that the partnership develops to support any changing needs.

By delivering operational excellence and adding value for our clients and their customers, we achieve high client retention rates. In our 27 years of operation we have only failed to renew 3 of our material contracts (defined as generating more than 1% of the previous year's revenue). Over the next 5 years to 31 December 2015 we only have 2 rebids of our material contracts and these are both due in 2012.

We aim not just to keep our relationships, but also where possible to grow them through supporting further areas of our clients' operations. For example, our partnership with Birmingham City Council was established in 2006 and commenced with an initial ICT transformation programme designed to provide a stable platform for further business transformation. We have now delivered a series of business transformation projects helping the Council to transform services to meet the needs of their citizens and deliver significant cost savings. See our case study for further information on how we have been delivering benefits to the Council and the local community on pages 40 and 41.

Securing appropriate pricing and contract terms

Our major contracts are long term commitments. It is therefore essential to get our pricing and contract terms correct from the start, to deliver value to both the Group and our clients.

To ensure prudent pricing, we clearly separate responsibilities:

– sales teams: client relationships

– sales support teams: pricing and risk models

– Group Board: solution and pricing approval (major bids).

We undertake extensive due diligence to build detailed service, risk and pricing models. We often share these openly with our prospective clients to ensure that all our assumptions for delivering successfully on the project are robust and that the benefits generated to both parties are fully understood.

Our contract price is generally made up of a base cost that covers the transformation and normal running costs of the service. Where demand on the service infrastructure 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 low Group overhead costs help to provide additional competitive advantage and enable us to generate reasonable margins for the Group.

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

Maintaining a strong competitive position

We have consistently led and helped shape the market by developing our outsourcing offering.

We maintain open and honest discussions with our clients, which allow us to develop a detailed understanding of their business and challenges. We respond to clients' specified requirements but always seek to propose alternative service models that deliver even greater value to our clients' operations and further enhance effectiveness and competitiveness.

Our clients are highly selective. Increasingly, they seek outsourcing partners who have not just the expertise and capacity to support them but also the financial strength and stability essential to building a long term partnership. We, too, must be selective and we undertake detailed due diligence of potential clients.

Our knowledge and skill base and extensive operational and technical infrastructure positions us strongly. We have a detailed knowledge of our market; and our management team is highly accessible and swift to respond to our clients' needs. Our excellent track record of service delivery ensures a strong set of satisfied clients.

Priorities 2011: Organic growth

– Identify and employ talented sales individuals to expand our sales teams

– Continue to focus on converting opportunities in the record bid pipeline

– Identify quality new business opportunities to replenish and maintain a buoyant bid pipeline

– Continue addressing opportunities selectively

– Continue to explore new market segments where we can add value, such as health, defence and police

– Maintain bid process disciplines to secure appropriate pricing and contract terms

– Maintain focus on retaining and expanding existing contracts.

Find out how we are implementing flexible and mobile working platforms.
Go to pages 30 and 31.

1.2

Acquisitions – stimulating growth and adding value

Acquisitions have consistently played a key role in stimulating our growth. We continuously look to acquire niche businesses that will help us to enter new markets where we can:

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

Expanding our presence through subsequent acquisitions and contract wins creates significant additional scale benefits.

Progress in 2010

In 2010, we continued our acquisition strategy and spent £301m on 12 acquisitions.

A number of our recent acquisitions have provided a footprint or strengthened our position in new or fledgling markets for us. Premier Medical Group and FirstAssist Services Holdings Ltd have both become part of our health division, allowing us to strengthen our footprint in the health and workforce assistance market. Our acquisition of SunGard Public Sector has provided us with a strong entry into outsourced services for the secure radio communications services and police and wider emergency services. Details of all our 2010 acquisitions are on page 19.

Smooth integration of acquisitions

We have substantial experience of successfully integrating acquired businesses and achieving synergies with our existing operations. Stringent due diligence, before and after acquisition, is undertaken at both Group and business level enabling us to set clear targets for growth, integration benefits and profit. Our values and key processes are communicated and implemented right from the start of integration into the Group. A dedicated project team manages the transition – bringing financial procedures, information and communications technology (ICT), HR, legal, compliance and marketing quickly into line with our standards. Acquiring only small to medium sized businesses enables us to integrate them into our existing business infrastructure efficiently and allows us to generate value faster.

Rigorous selection criteria and pricing

To stimulate growth we generally seek target acquisitions that:

– have operations and customers principally in the UK and/or Ireland
– fit with our strategy and core competencies
– generate sustainable, quality revenues.

Potential acquisitions are identified and brought to the Group by external consultants, people in our businesses, or direct approaches. All acquisitions are assessed, priced and agreed by the Group Board.

We tend to select acquisition targets that are:

– privately owned
– too small to interest the private equity market
– not in an auction, as we aim to acquire without competition
– attractively priced.

This disciplined approach enables us to negotiate sensible purchase prices and terms, so generating good returns for the Group.

"Our pipeline of potential acquisitions remains healthy and is providing opportunities to purchase operations at reasonable valuation levels that meet our criteria to enhance our offering or to take us into new areas. We continue to be selective and remain disciplined when assessing opportunities."

Andy Parker Joint Chief Operating Officer

Priorities 2011: Acquisitions

– Continue to encourage businesses to identify suitable acquisitions
– Select acquisitions that complement or grow our business offering
– Identify acquisitions that take us into new markets
– Maintain rigorous criteria for selecting targets
– Maintain stringent disciplines regarding pricing
– Continue to enhance integration process.

Acquisitions in 2010
Total spend:
£301m
on 12 acquisitions

Heath and medical services
Premier Medical Group
Value: £60m
Leading provider of medical reporting and screening in UK.
Benefits to Capita
Adds new capability to our existing occupational health business and expands our footprint in the health market.

Heath and medical services
iSoft Business Solutions
Value: £23m
A leading provider of financial accounting and purchasing software to the public sector.
Benefits to Capita
New products to expand our range of services and capabilities.

Heath and medical services
FirstAssist Services Holdings Ltd
Value: £12.5m
A provider of telephone advice and assistance services to customers and employees of public and private sector organisations.
Benefits to Capita
Adds further depth and breadth of expertise to our existing services for the health and workforce management market.

Travel administration
BSI Holdings Ltd
Value: £42.5m
A hotel booking and meetings management agency with clients in both the public and private sector.
Benefits to Capita
Adds significant new accommodation and meetings management capabilities to existing operations.

Secure information services
SunGard Public Sector Ltd
Value: £86m
A supplier of ICT, radio network services and communication systems to the emergency services and to central and local government.
Benefits to Capita
Brings new market opportunities particularly in the area of ICT solutions and outsourced services to fire, police and ambulance authorities.

IT services
Ramesys
Value: £15m
A provider of integrated ICT solutions to the education and commercial sector.
Benefits to Capita
Adds further scale and expertise to our existing ICT business.

Insurance
National Dental Plan
Value: £30m
One of the largest providers of corporate dental plans in the UK.
Benefits to Capita
Extends our range of tailored insurance services, including employee benefits schemes, to both public and private sectors.

Insurance
Sureterm Direct
Value: £8m
£1.5m deferred consideration
Personal lines broker offering insurance for classic cars, motorhomes and 4x4s.
Benefits to Capita
Allows us to align our classic car insurance businesses increasing the efficiency of our services to customers.

Property consultancy
Inventures
Value: £6.8m
£5m deferred consideration
Provider of programme and project management, property and estate management, healthcare planning and facilities management advice to the NHS and other public sector bodies across the UK.
Benefits to Capita
Enables Capita Symonds to access a wider range of clients and provide a unique full service proposition across health and the wider public sector.

Property consultancy
NB Real Estate
Value: £10m
£10m deferred consideration
Commercial property management specialists.
Benefits to Capita
Adds further services, clients and expertise to Capita Symonds and allows us to offer a full service proposition across the real estate life cycle.

Debt management
Ross & Roberts
Value: £5m
Debt management company serving over 70 local authorities.
Benefits to Capita
Extends our relationships with local authorities.

Financial services
PAL Services
Value: £1.9m
£1.3m deferred consideration
Based in Luxembourg. Provider of a range of corporate services to an international client base.
Benefits to Capita
Complements our existing Luxembourg operations Capita Fiduciary S.A. (part of Capita Fiduciary Group).

Timeline 2010

February
Inventures
NB Real Estate

March
Ross & Roberts
Ramesys

April
Sureterm Direct
PAL Services

June
Premier Medical Group

August
National Dental Plan

September
FirstAssist Services Holdings Ltd

December
iSoft Business Solutions
BSI Holdings Ltd
SunGard Public Sector Ltd

AXA

Improving the customer experience

Our objectives

In June 2009 we began a 15-year contract with AXA* worth £523m to administer 3.2 million life and pensions policies. From day one our objectives were clear:

– improve the customer experience

– simplify and modernise the complex IT infrastructure and reduce the cost base of the business

– manage the declining book of business while retaining customers where possible.

Our approach

We launched a transformation programme which involved consolidating existing UK contact centres and repatriating call centre work from our client's operations in India, a sustained employee communication and training programme, rationalising IT systems, and streamlining the client's back office processes.

*In September 2010, most of the business we were administering was transferred to Friends Provident when the majority of AXA Sun Life was acquired by Resolution, which also owns Friends Provident.

The result

Just over a year into the partnership we have already reached several key milestones. A smooth transition was followed by the successful repatriation of call centre work from India to the UK. The UK relocation programme was completed 8 months ahead of schedule and 100 new roles have been created in Craigforth. The transformation programmes we have implemented will bring further efficiency and cost improvement over the next 12 months.

1
Seamless transition

Starting in June 2009, we transferred services from AXA's centres in Bristol, Coventry, Basingstoke, Pune and Bangalore to Capita. This involved transferring 1,150 people in the UK and a further 550 in India with no disruption to customer service.

2
People development

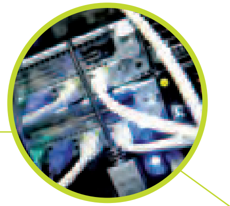
A sustained employee communication and training programme helped to integrate new staff into a service-oriented outsourcing environment. We offer employees significant training opportunities and currently have 45 people on Modern Apprenticeship Schemes and others working towards Institute of Customer Service awards and financial services qualifications.

45 people on Modern Apprenticeship Schemes

6,000 calls a day

3
Contact centre programme

When we signed the contract in 2009, some customer calls were being handled by AXA's India-based operation. Over 15 months we successfully repatriated customer and IFA calls from Bangalore and consolidated existing UK contact centres in Bristol, Basingstoke and Coventry to our voice services Centre of Excellence in Craigforth.



Secure data centre

4
Systems rationalisation

At first we used AXA's desktop and business applications to deliver services. We have since connected AXA's IT to our own so that AXA and Friends Provident applications can be accessed from our systems.

5
Back office programme

The key to our process improvement programme was Dolphin, our image and workflow system. Scanning and indexing with Dolphin allows a high degree of automation and gives operational managers the tools and techniques to drive both efficiency and consistent service delivery in the UK and India. We are now relocating residual back office processing from Basingstoke and Coventry to Bristol, which will lead to further process improvements.

Process improvements

2

Targeting growth markets

We are the UK market leader in business process outsourcing – the long term contracting-out of business processes to help lower costs and improve service delivery.

We primarily focus on the UK and Ireland, where there are significant opportunities for growth.

Competitor rankings UK BPO market*

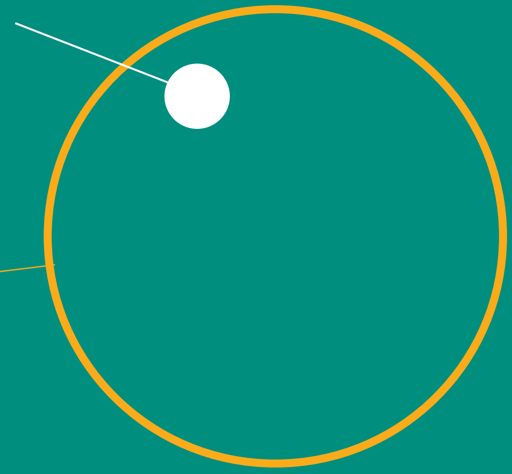
	2010 Market share
Capita	23%
Accenture	4%
Xerox (including ACS)	4%
HP Enterprise Services	3%
Xchanging	3%

Total UK BPO market p.a*

Today	£7.8bn
Private sector £5.6bn	72%
Public sector £2.2bn	28%

Potential

£117bn



* IDC

Learn how we have donated £1.6m to the local community in Birmingham.
Go to pages 40 and 41.

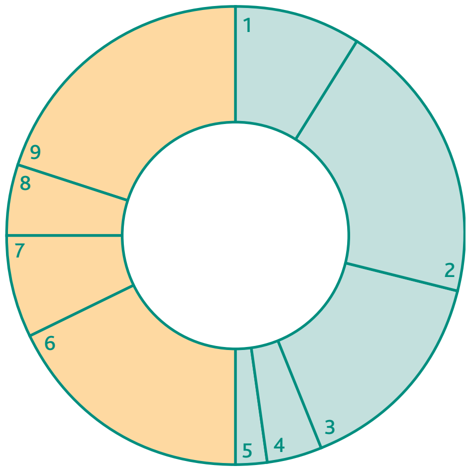
Turnover by market

Public sector 50%

	% of Group revenues 2010	2009
1. Central government	9	10
2. Local government	20	22
3. Education	15	12
4. Health	4	3
5. Transport	2	3

Private sector 50%

	% of Group revenues 2010	2009
6. Life and pensions	18	18
7. Insurance	7	8
8. Financial services	5	4
9. Other corporates	20	20



New market analysis

In 2010, we commissioned new market research from one of the leading independent industry analysts, IDC. Figures have been restated from previous years, where possible, to give like for like comparisons.

IDC estimates that the total market for BPO in the UK in 2010 was £7.8bn against market potential of £117bn a year. The capacity for long term growth therefore remains substantial with many opportunities for us to assist organisations as they acknowledge the benefits of outsourcing.

We remain the clear leader in the overall UK BPO market with 23% market share (2009: 23%). Our nearest competitor is reported to have 4% market share.*

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

Our most active markets in 2010 were local government and life and pensions. There remain significant drivers for outsourcing across all our chosen markets. For details of the composition of our bid pipeline as of February 2011 see diagram on page 14.

The strength of our bid pipeline, with opportunities across all our chosen markets, is a strong demonstration of the continued interest in, and engagement with, outsourcing.

Our 9 diverse and growing markets

We currently operate in 9 distinct markets across the public and private sectors where the drivers for outsourcing are strong. We are number one in the majority of our markets.

IDC market sizing and methodology

The first step was 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:

Managers and Senior Officials – max 25%

All other occupational levels – max 40%

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. Based on these assumptions and calculations, IDC estimates a total addressable market for BPO in the UK of £117bn.

* IDC

"The strength of our bid pipeline, with opportunities across all our chosen markets, is a strong demonstration of the continued interest in, and engagement with, outsourcing."

Maggi Bell Business Development Director

Understand how we are improving accessibility to services. Go to pages 30 and 31.

Drivers for outsourcing in 2011

Public sector: We provide outsourcing and support services to both local authorities and central government. We have built particular expertise in education, health and transport – and continue our interest in defence. Our acquisition of SunGard Public Sector Ltd adds a new client segment, police forces, ambulance trusts and the wider emergency services.

The Comprehensive Spending Review in October 2010 highlighted areas across central and local government where budgets are to be reduced and efficiencies achieved. We expect this fiscal pressure on public spending, along with a backdrop of increased demand for services, to heighten the focus on outsourcing in the public sector in 2011. With our solid track record of delivering public sector contracts, we are well placed to help organisations to introduce new, more sustainable and streamlined ways of working to meet public needs.

Private sector: The 3 main private sector markets we focus on are life and pensions, insurance and financial services, as well as having an increasing number of clients in other corporate markets. In the current economic climate, there is increased pressure on commercial organisations to drive down operational costs without compromising customer service to maintain their competitive positions. There has been a delay in outsourcing decisions being made in 2010 in the private sector, however we expect this to return to more usual levels of engagement with outsourcing as these organisations and their markets stabilise.

Expanding our reach in 2011

We are exploring opportunities to provide support in Continental Europe for our existing and new clients, across life and pensions and the wider financial services market, that serve international markets. See page 45.

1. Central government (9% of Group revenue)

Capita is the leading provider of BPO services in central government. Our contracts span recruitment and employment checking, accreditation and records management as well as administration of public sector pensions and public grant programmes.

Size of opportunity

With an estimated annual administration spend across central government of £16.2bn in 2008/2009* and circa 500,000** staff across all departments, there are significant opportunities for outsourcing. The Government has committed to reducing administration budgets by £5.9bn a year by 2014-2015 across the whole of Whitehall and Arms Length Bodies.

Beyond outsourcing IT and facilities management, few central government departments have to date outsourced wider services such as customer, HR or financial administration services. The Government is exploring how common goods and services, that are shared across departments, can be procured more efficiently and cost effectively. Many of our businesses, such as our business travel operations, are able to use their purchasing expertise to assist in this objective.

Drivers for outsourcing

- Post the October 2010 Spending Review, increased pressure on central government departments to deliver quality frontline services at substantially reduced levels of funding over the next 4 years from April 2011
- Confirmation by the Efficiency & Reform Group that all departments will have to use approved framework contracts to procure shared goods and services such as IT, property services and travel
- Legislation and other policy initiatives likely to offer opportunities for greater private sector involvement in public service delivery spanning welfare, higher and further education, pensions and financial administration, criminal justice, the Green Agenda and fraud prevention
- Evidence from other sectors, including local authorities, that BPO and new models of public service delivery can achieve more for less
- Access to skills and technology that can guarantee savings both upfront and for the longer term
- Indications that central government is exploring new delivery models which also offer greater transparency of expenditure.

2. Local government (20% of Group revenue)

Capita continues to lead the local government BPO market and works with the majority of local authorities, including 10 strategic partnerships, to help to deliver efficient, flexible public services for citizens and communities.

Size of opportunity

Of the 468 UK local authorities, less than 10% have entered into outsourcing in any significant way to date, however, there is an increasing flow of opportunities to create transformational partnerships and large outsourcing agreements. We are also seeking ways in which to expand our current relationships to help our local authority clients respond to increasing fiscal pressures and demand for quality, flexible services.

Central government has indicated that greater responsibility for spending and service procurement is to be transferred from central to local government departments allowing them to play a greater role in shaping services and making public services more efficient and effective. This will give local authorities greater autonomy and freedom to manage their budgets and explore new service delivery models that can be tailored to their specific needs.

Drivers for outsourcing

- Pressure to deliver value for money services against a backdrop of increased service demand and reduced revenues
- The October 2010 Comprehensive Spending Review which stated that funding to councils will be reduced by approximately 7% per annum for the next 4 years
- Growing opportunities to establish shared service infrastructures capable of bringing together public services in a more co-ordinated approach
- Changing roles – local authorities increasingly becoming commissioners of services rather than deliverers of services.

* http://www.hm-treasury.gov.uk/d/pesa2010
** http://www.civilservice.gov.uk

3. Education (15% of Group revenue)

Our continued commitment to helping schools and local authorities make informed decisions, has enabled us to maintain a leading position in this market. Through expert resources and support we provide specialist software and information management systems, ICT and property consultancy.

Size of opportunity

As dynamics change in the education market, characterised by a need to reduce budgets and develop new ways of working, we constantly look at how we can deliver more innovative solutions to better support our clients with administration activities and evidence-based decision making.

The development of our businesses combined with our acquisitions in the ICT space, such as the acquisition of Ramesys, allow us to offer a wider range of services, software and end-to-end IT outsourcing solutions to schools and colleges and enter into exclusive framework agreements. We see many opportunities to develop our ICT offer in this sector.

In preparation for the end of the National Strategies programme in March 2011, we have created a new education service that will provide vital support to schools, early years providers and local authorities as they seek to maintain and improve standards in the new education landscape. With our established knowledge and expertise, Capita is in a strong position to grow in this market.

Drivers for outsourcing

- Efficiency agenda driving local authorities and education establishments to streamline and improve their business processes
- Expansion of the Academies programme providing greater outsourcing opportunities in areas such as HR, finance and ICT
- Requirement to respond quickly and adequately to changing legislation and Government initiatives
- Pressures on local authorities to make significant cost savings prompting many of them to consider a partnership approach to working
- Need to track and support shared learning across multiple education establishments
- Need to make full use of technology to support informed decision making to deliver effective learning and school improvement
- Significant potential to increase our presence in the international and independent school markets.

4. Health (4% of Group revenue)

Our strong growth has continued in this sector achieved through a combination of contract wins and acquisitions. We now work with over 70% of NHS organisations, 148 of the 168 acute trusts in England and have clients in every health economy in the UK and Ireland.

Size of opportunity

We deliver outsourced IT and back office services for key Department of Health contracts and provide specialist advice and analytical support to NHS organisations and pharmaceutical companies to improve efficiency, governance and patient and staff experience.

In 2010 health expenditure in England alone was £118bn, of which addressable spend on the type of outsourced services that we can deliver is estimated to be between £13bn and £15bn. This includes NHS and Department of Health spend and opportunities to assist Arms Length Bodies in this area, as they are streamlined from 18 organisations to 6 by 2012.

According to CIPD*, workers took on average 7.5 days off sick in 2010 costing employers more than £16bn. The cost of absence through sickness in the public sector is £889 per employee compared to £400 per employee in the private sector. Organisations are increasingly looking to address this by making changes in order to improve their employees' health and wellbeing, reduce work-related stress and increase efficiency. Due to our acquisition of Premier Medical Group we are well placed to assist with this.

Drivers for outsourcing

- The requirement for NHS organisations to find £15bn to £20bn of savings in the next 3 to 4 years
- The requirement to improve the 'patient experience' by introducing a customer service culture
- Willingness by the Government to enhance the role of the private sector in supporting NHS commissioners and health providers
- The introduction of GP commissioning consortia and the opportunity to provide business support to these organisations
- The requirement to drive down sickness absence and improve staff wellbeing in the workplace
- The pledge from Government to undertake a commercial review of Arms Length Bodies with a view to introducing private sector providers to support them.

* CIPD Absence Management Survey 2010

5. Transport (2% of Group revenue)

Our property and infrastructure consultancy, Capita Symonds, has a long track record of successfully delivering a wide variety of projects in the transport sector. It provides services such as highway and tunnel infrastructure design and refurbishment; road user pricing; intelligent transport systems; rail engineering and project management; and transport planning to clients across both the public and private sectors.

Size of opportunity

The Government recently announced an £8bn investment in the UK rail network – our successful commissions as major supplier to the Crossrail project and our support to the Thameslink scheme, both in London, position us well to seek opportunities to assist with this major infrastructure modernisation programme.

We have formed strategic alliances with many local authorities to help manage their transport requirements through a mixture of contracts, joint ventures and secondment models. We are seeing a healthy flow of opportunities as local authorities respond to increasing fiscal pressures.

Although primarily focused on the UK, Capita Symonds is also acting as Technical Advisers on major transport projects across Europe, as well as being involved in civil engineering projects in India and various parts of Asia and Africa. We will continue to seek appropriate opportunities in these regions in addition to those in our home market.

Drivers for outsourcing

- Opportunities to support the announced £8bn programme of investment in the UK rail network
- Highway maintenance contracts being re-formed within many local authorities and opportunities to forge links with major contractors for a series of these
- Squeeze on public sector spending prompting local authorities to increase managed services in highway maintenance and outsource CCTV monitoring services
- Renewed opportunities to provide multidisciplinary services to private sector clients as they rebuild their businesses in the improving UK economy.

6. Life and pensions (18% of Group revenue)

Capita continues to lead the UK outsourced life and pensions administration market and is also the leader globally. Our group pensions business is the leader in the administration of UK public sector pension schemes and ranks 4th in the administration of UK private sector pensions schemes.

Size of opportunity

Our scale, focus on customer service, continued investment in specialist technology and our ability to offer a mixed onshore/nearshore/offshore delivery model, makes us a compelling choice as an outsourcing partner.

We are responsible for administering approximately 23 million individual policies, which represent around 22% of the total UK market, and we are the only major administrator of open life and pensions books in the UK.

We estimate there are circa 107 million life and pensions policies in force in the UK of which around 68 million have not yet been outsourced. There are additionally 28 million members in group pension schemes and third party administration is actively embraced in this market sector.

Our operations in India play a key role, offering high productivity levels and exemplary standards of administration and quality English language customer services. We are exploring the opportunity to replicate our successful life and pensions model on behalf of our existing and new clients in Europe. We are establishing a new business centre in Krakow, Poland that will be well positioned to help deliver such opportunities. See page 45.

We estimate there are circa 500 million life and pensions policies in force in Europe (excluding the UK) with an addressable spend of £18bn per annum. The drivers for outsourcing in Continental Europe are similar to those in the UK and considerable synergies are possible from replicating our service delivery model in Europe, particularly as costs of administration are some 2 times higher than in the UK, providing us with an opportunity to significantly cut client costs.

Drivers for outsourcing

- Clients wishing to duplicate their UK outsourcing arrangements across their wider European and international activities

Renewed focus by providers on the benefits achieved by outsourcing, encouraging providers to examine their business models

- Continued pressure to cut operating costs and increase effectiveness
- Providers seeking assistance to respond to and share associated costs of increasingly complex legislation
- Acknowledgement of the cost benefits offered by commonality across shared delivery platforms
- Challenging market conditions putting a premium on clients' ability to introduce and distribute new products faster
- Opportunity to benefit from blended onshore/nearshore/offshore delivery of services.

7. Insurance (7% of Group revenue)

Our key capabilities embrace the personal lines, commercial insurance and Lloyd's and the London Market areas, together with capabilities in specialist insurance products working across claims, service sales and back office administration. The scale of our support ranges from complete end-to-end solutions for large insurers and brokers, to bespoke services focused on specific needs.

Size of opportunity

The UK insurance industry remains the largest in Europe and the 3rd largest globally, accounting for around 8% of worldwide premium income. Over 75% of UK households purchase motor and home insurance products and in the last 10 years claims paid have increased by some 44%.

We are actively involved in working with our clients to improve their online capability, reducing the cost of telephony while delivering service improvements through the use of creative voice solutions, resulting in reduced call waiting times and improved customer service. Additionally, traditional client contact methods are changing and new technology is enabling clients to interact with their customers across a whole range of new media. We are able to assist our clients with these projects and in addition support them with peak hour demand support, call overflow and downtime fulfilment models.

Drivers for outsourcing

– Need to provide claims processing and comprehensive, quality customer service at lower operational cost and embracing new technology
– Higher frequency of severe weather events in UK prompting an increase in claims. Need for organisations to review their operating models to offset this with cost savings
– Insurers reviewing their operating arrangements and processes and exploring ways to reduce indemnity spend
– The Lloyd's of London Claims Transformation Programme may prompt adoption of new claims handling models
– Importance of bringing new products to market faster
– Blended onshore/offshore/nearshore delivery offers greater flexibility and cost effectiveness
– Need to improve management of claims costs, particularly by preventing fraud and leakage.

8. Financial services (5% of Group revenue)

Capita has built a strong presence in a number of market segments. In particular we provide fund administration to both open and closed end structures, trust services and loan administration. Our scale enables us to deliver cost effective and flexible administration solutions across different tax jurisdictions (onshore, nearshore and offshore).

Size of opportunity

We are the 2nd largest administrator of investment companies in the UK and the 6th fastest growing fund administrator in Ireland, where market opportunities are particularly strong. With increasing pressure on both government and financial institutions to manage large and commercial loans as efficiently as possible, our expertise and scale as Europe's largest, independent master servicer will stand us in good stead to grow our business in this area further.

The fiduciary business has driven average annual compound growth of 40% since 2005 and, despite the weaker market conditions in 2010, the business continued to drive organic growth of circa 15%.

In the UK, while financial markets are still recovering, open-ended funds assets under management grew from £467bn in November 2009 to £555bn in November 2010* an increase of 19%. In Ireland, despite the impact of the global downturn on the local economy, the funds market has proved remarkably resilient. Total assets under administration at the end of September 2010 stood at €1,706bn which represents an increase of €353bn or 26% compared to September 2009**.

Many financial services organisations are looking at reducing their cost bases and creating more flexible operating models to enhance their competitiveness. We believe we are positioned well to assist investment companies and other organisations to meet these challenges.

Drivers for outsourcing

– Ability to reduce costs through shared technology, administration processing, customer service and compliance support
– Need for leading edge systems to cope with increased competition and increasing legislative and regulatory change
– Reduce risk of not keeping pace with regulatory change and reduce costs associated with this
– Need for financial organisations to offer greater flexibility and enhance competitiveness
– Desire for organisations to divest of non-core activities in order to focus on core business and sales generation.

* IMA
** IFIA

9. Other corporates (20% of Group revenue)

We offer a full range of back office administration and frontline customer services and are focused on streamlining processes, reducing costs and increasing productivity. Our clients are also able to take advantage of our advanced technology and shared platforms which add real value to their business models.

Size of opportunity

This market is difficult to size as we offer multiple outsourcing services to a wide range of organisations with differing requirements and objectives. Our clients may choose to outsource one or several functions within their operations such as financial, registrar and corporate services, HR, administration processes, ICT, marketing and customer services. In the current economic climate, organisations continue to focus on reducing operating costs without compromising the customer experience.

With our broad experience and track record in delivering efficiencies and improving service quality, we are able to help organisations to stay at the forefront of their markets and maintain their competitiveness.

Drivers for outsourcing

- Need to reduce processing and administration costs while improving customer service and retention
- Increasing pressure to maintain productivity and improve service levels
- Pressure on investment and research budgets, despite undiminished requirement for development to maintain competitiveness
- Drive to optimise organisations' own corporate services
- Increased regulatory and legislative requirements.

Capita's market positions 2010*

No. 1
Central government, local government, education, health, life and pensions and insurance.

No. 2
Other corporates

No. 3
Transport

No. 4
Financial services

Read about how we increased email speed by 500%. Go to pages 40 and 41.

* IDC

Harrow Council strategic partnership

A better deal for residents

The challenge

Harrow Council wanted to change the way its frontline staff deliver council services to residents, radically improving the residents' experience. At the same time it wanted to save as much as possible on back office functions and procurement.

Our approach

In partnership with the Council we developed a borough-wide transformation programme. This was underpinned by a robust IT platform that enabled us to drive improvements to the Council's systems and improve services for residents.

The result

We have already delivered the £45m worth of savings we guaranteed on a gain-share basis. Ground-breaking transformation projects currently in hand will realise another £25m of savings over 10 years, and further projects awaiting approval could deliver a further saving of £25m.

1 Getting the IT in place

We implemented SAP ERP, CRM, EDRMS, GPS Mobile Working, CCPH (customer care platform), RFID (Radio Frequency Identification) and Business Warehouse (management reporting) across the Council.

2 Improving information sharing

A new streamlined IT infrastructure supports information sharing and a move to mobile and flexible working.

3 Implementing flexible and mobile working platforms

We are introducing a flexible, proven workforce infrastructure that encourages a culture of part-time, flexi-time and home working, and will save over 500 desk spaces. This more tailored approach will put council employees in a better position to support the community.

500 desk spaces saved

4 Improving accessibility to services

Our Access to Services plan aims to give people easy access to council services through a mix of personal contact using the One Stop Shop contact centre and vastly improved online services.

5 Delivering services efficiently and effectively

We are delivering a whole raft of improved services including:

Savings of £3.1m over 10 years

GPS-enabled waste management
We transformed the Council's waste management by introducing new back office systems, route planning, GPS-enabled mobile working and real time integration with the contact centre. This new technology will save £3.1m over 10 years.

Self-service technology in libraries
Introducing RFID technology in Harrow's libraries enabled a new self-service system alongside stock management benefits for staff. This was underpinned by a library management system upgrade, a new online payment facility, a web redesign and integration with the Council's customer portal.

133% increase in online transactions

Harrow Clicks
This is a campaign to let people know how many services they can access online. Dealing with a customer online costs just 17p compared to a face-to-face cost of £7.73: in less than a year Harrow Clicks delivered a 133% increase in online transactions, saving over £200,000 while enhancing customer service.

Better special needs transport
We developed an assessment and independent travel centre to offer improved services for people with special needs. New route planning software has maximised the efficiency of bus routes and we renegotiated contract fleet hire rates to bring further financial savings.

3

Controlling and measuring growth

Strong leadership and clear business practices are essential to creating a financially stable organisation capable of supporting sustained growth and delivering healthy investor returns.

With strong financial controls, careful risk management and effective governance, we work to clear financial KPI targets within a robust management and operating structure.

This allows us to focus on securing and delivering profitable business to generate steady, controlled growth.

Our growth is underpinned by the following disciplines and these remain our priorities for 2011:

3.1 Maintaining strong structure and control

3.2 Focusing on clear financial key performance indicators (KPIs)

3.3 Maintaining careful risk management.

Our principal financial KPIs

See pages 34 to 37

Aim	Progress 2010	2009
Earnings per share Achieve long term steady growth in EPS	44.98p	38.75p
Operating margin Maintain and strengthen margin	14.40%	13.31%
Free cash flow Maintain strong free underlying cash flow	£241m	£280m
Return on capital employed (ROCE) Achieve ROCE which exceeds our cost of capital	20.6% (7.7%)*	20.6% (7.9%)*
Economic profit Achieve steadily increasing economic profit	£187m	£162m
Gearing – interest cover Maintain an efficient capital structure, with relatively low gearing	12.4x	10.9x
Capital expenditure Keep at or below 4% of revenue	3.6%	2.5%

* Weighted Average Cost of Capital

3.1

Maintaining strong structure and control

Our management structure and business reporting process promote accountability and knowledge sharing across the Group, keeping management responsive to performance and trends in the business and the wider marketplace.

Our Board is responsible for establishing, maintaining and reviewing the Group's growth strategy, financial performance, systems of internal control and Group-wide policies. See pages 61 to 90.

"Our robust management review process enables the management team to have a detailed and current view of all our businesses, their performance against business plan and the challenges they are facing. Working together and sharing experience across the business units allows us to jointly resolve issues and enhance performance."

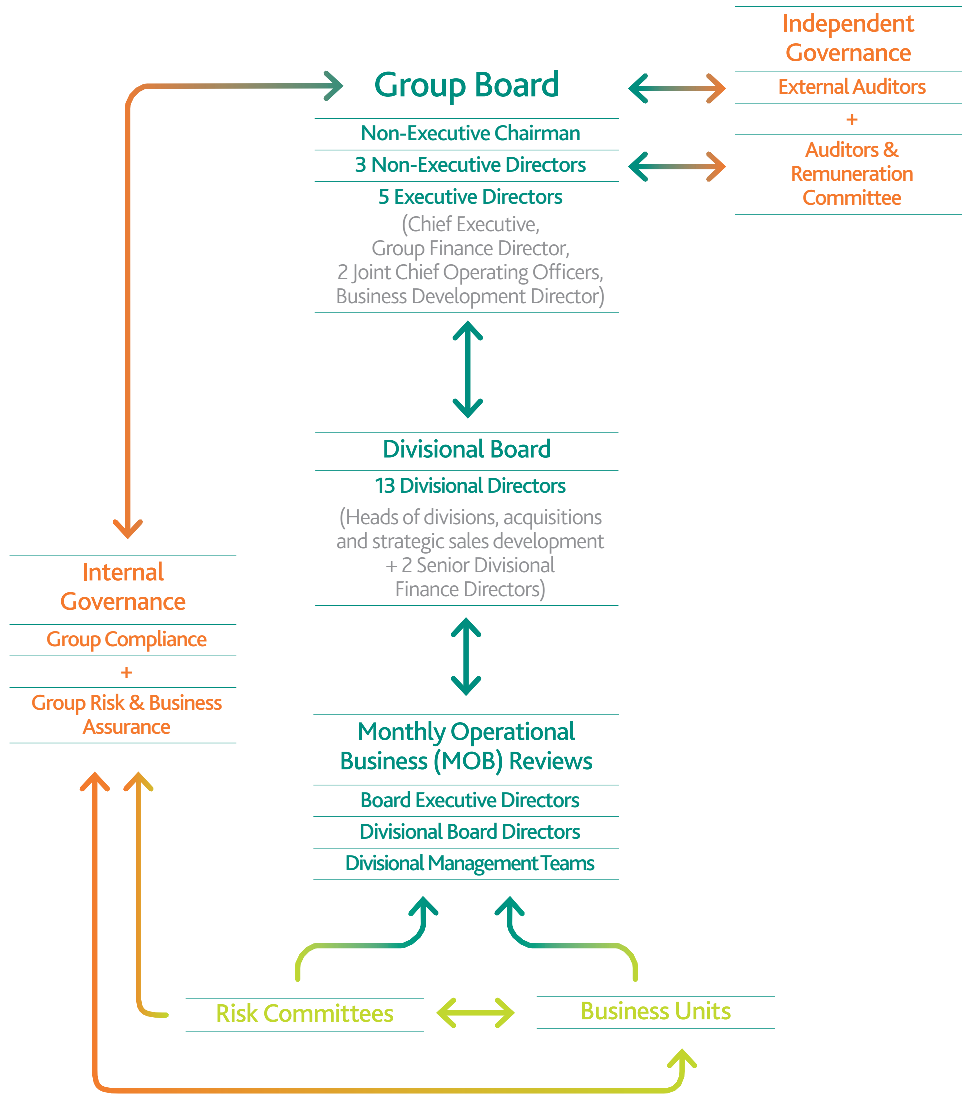
Vic Gysin Joint Chief Operating Officer

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

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

Monthly operational business (MOB) reviews focus on the performance of each business unit in each division. Management teams assess each unit's performance against plan and discuss its ongoing development, determining how planned targets will be met. These are forums to share knowledge and identify challenges early, develop tactics, reallocate resources and refresh strategies. Board Executive Directors attend divisional MOBs, ensuring they have a detailed knowledge of the progress of the divisions and a monthly view of actual and anticipated performance against business plans.

Our Management and Governance structure*



* As at January 2011.

3.2
Focusing on clear financial KPIs

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

Alongside profitability, we focus particularly on KPIs in 7 areas and these remain our priorities for 2011:

01 Earnings per share (EPS)

Aim: to achieve long term growth in EPS.

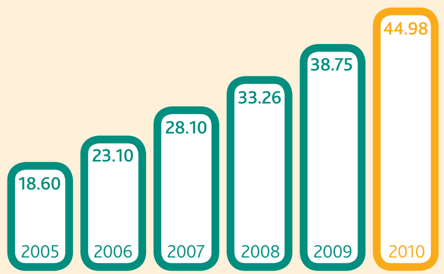
Long term growth in EPS is a fundamental driver to increasing shareholder value. Board Directors' long term incentive schemes have EPS targets to align their interests with those of our shareholders.

Progress: In 2010, underlying earnings per share grew by 16% to 44.98p (2009: 38.75p).

Underlying earnings per share (p)*

Annual growth **16%**

5 year compound growth **19%**



* See notes 2 and 4 on pages 96 and 101.

02 Operating margin

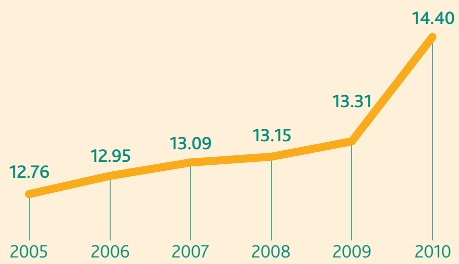
Aim: to maintain and strengthen margin.

We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective.

Progress: In 2010, we continued our long term trend of steadily improving underlying operating margin with an annual increase of 109 basis points (bpts) to 14.40% (2009: 13.31%). Our continued margin progression is due to: our focus on operating at optimum efficiency across the Group; our ability to drive out benefits from our extensive scale (in particular through IT rationalisation, property consolidation and effective procurement); the optimisation of our offshore facilities and the sophistication and added value of the services we deliver to clients.

Underlying operating margin (%)*

Annual increase **109bpts**



* See notes 2 and 4 on pages 96 and 101.

See where we have created 600 jobs since 2006. Go to pages 40 and 41.

“We monitor and challenge financial performance at all levels to probe the health and progress of our businesses and promote accountability. As well as profitability, we use a range of financial measures at Group level. Collectively they form an integral part of the way we build consistent, long term value for our shareholders.”

Gordon Hurst Group Finance Director

03 Cash flow

Aim: to maintain strong operating and free cash flow. We generate a predictable and consistent cash flow.

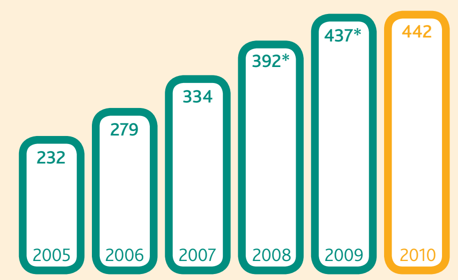
Progress: The strength of our business model is reflected in our healthy cash flow with £442m generated by operations in 2010, representing an operating profit to cash conversion rate of 112% (2009: 122%). Our underlying free cash flow, defined as operating cash flow less capital expenditure, interest and taxation was £241m (2009: £280m). This was due to increased investment in IT platforms in our life and pensions and share registration operations.

Our performance in this area reflects the strength of our business model and management approach, including: securing timely payment terms; focusing on cash generation; providing valued services and maintaining an efficient finance function.

Cash flow from operating activities (£m)

Annual growth **1%**

5 year compound growth **14%**

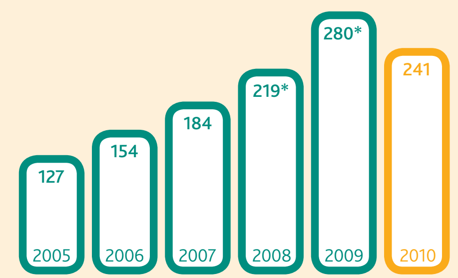


* Exceptional additional pension contribution £10m (2008), £40m (2009).

Free cash flow (£m)

Annual growth **14%**

5 year compound growth **14%**



* Exceptional additional pension contribution £10m (2008), £40m (2009).

04 Economic profit

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

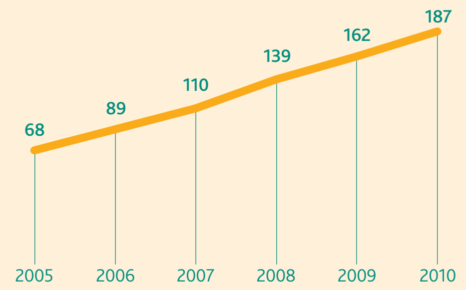
An effective way of measuring this is to assess whether our after tax returns are sufficient to cover the returns required from all our capital providers (weighted average cost of capital – WACC). Group economic profit allows us to assess whether the return generated on the average capital base is sufficient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

Progress: In 2010, we achieved positive economic profit of £187m (2009: £162m).

Group economic profit (£m)

Annual increase **15%**

5 year compound growth **22%**



	2005	2006	2007	2008	2009	2010
Underlying operating profit (£m)	183	225	271	321	358	395
Average capital (£m)	776	880	998	1,155	1,271	1,451
Tax (%)	27.7	27.7	27.7	27.0	26.8	24.5
Post tax WACC (est %)	8.2	8.4	8.6	8.2	7.9	7.7
Capital charge (£m)	(64)	(74)	(86)	(95)	(100)	(112)
Tax (£m)	(51)	(62)	(75)	(87)	(96)	(96)
Economic profit (£m)	68	89	110	139	162	187

05 Return on capital employed (ROCE)

Aim: to achieve steadily increasing ROCE which exceeds our cost of capital.

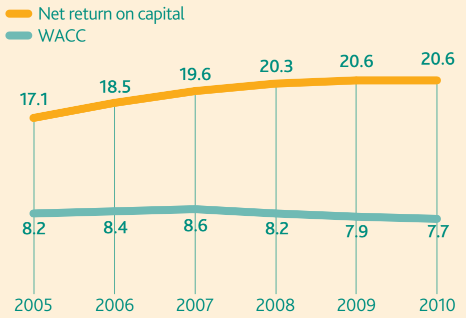
This ensures that we add shareholder value over the long term. In recent years we have successfully widened the margin between the cost of our capital and the returns we generate by investing it.

In the chart below the post-tax WACC indicates the return that could be expected from the capital invested in the business. It is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our post-tax WACC assuming a risk-free rate of 3.88%, an equity risk premium of 7.20% and a Beta of 0.65.

Progress: During 2010, our post-tax return on average capital employed remained unchanged at 20.6% (2009: 20.6%). This compares to our estimated post-tax WACC which is 7.7%.

Net return on capital (%)*

Annual increase **unchanged**



* Excludes items which the Group treats as non-underlying, see notes 2 and 4 on pages 96 and 101.

See where we handled up to 6,000 calls a day. Go to pages 20 and 21.

06 Gearing

Aim: to maintain a conservative and efficient capital structure, with a relatively low 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 and even more so during the current weak economic conditions. The Group has substantial headroom to take on further debt if necessary, as indicated by the interest cover ratio and net debt to earnings before interest, tax, depreciation and amortisation (underlying EBITDA). However, we would be unlikely to incur borrowings which would reduce interest cover below 7 times.

Progress: Group interest cover for the year ended 31 December 2010 was 12.4 times.

Balance sheet gearing

	2010	2009
Net debt		
Bond debt (£m)*	834	582
Net bank facilities drawn/(deposit) (£m)	60	(182)
Loan notes (£m)	2	3
Bank term loan (£m)	–	200
Other	2	2
Total underlying net debt (£m)	898	605
Interest cover	12.4x	10.9x
Net debt to EBITDA	1.6**	1.5

*Underlying net debt after impact of currency and interest swaps

**Adjusted for December acquisitions

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

07 Capital expenditure

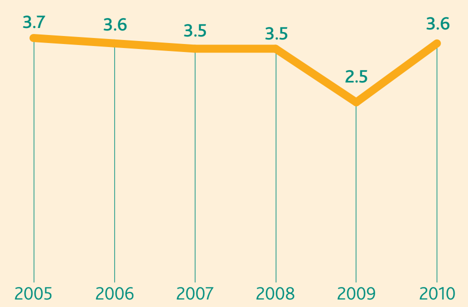
Aim: to keep capital expenditure (capex) at or below 4% of revenue.

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

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

Capex as % of turnover

2010 **3.6%**



"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."

Paul Pindar Chief Executive

3.3 Maintaining careful risk management

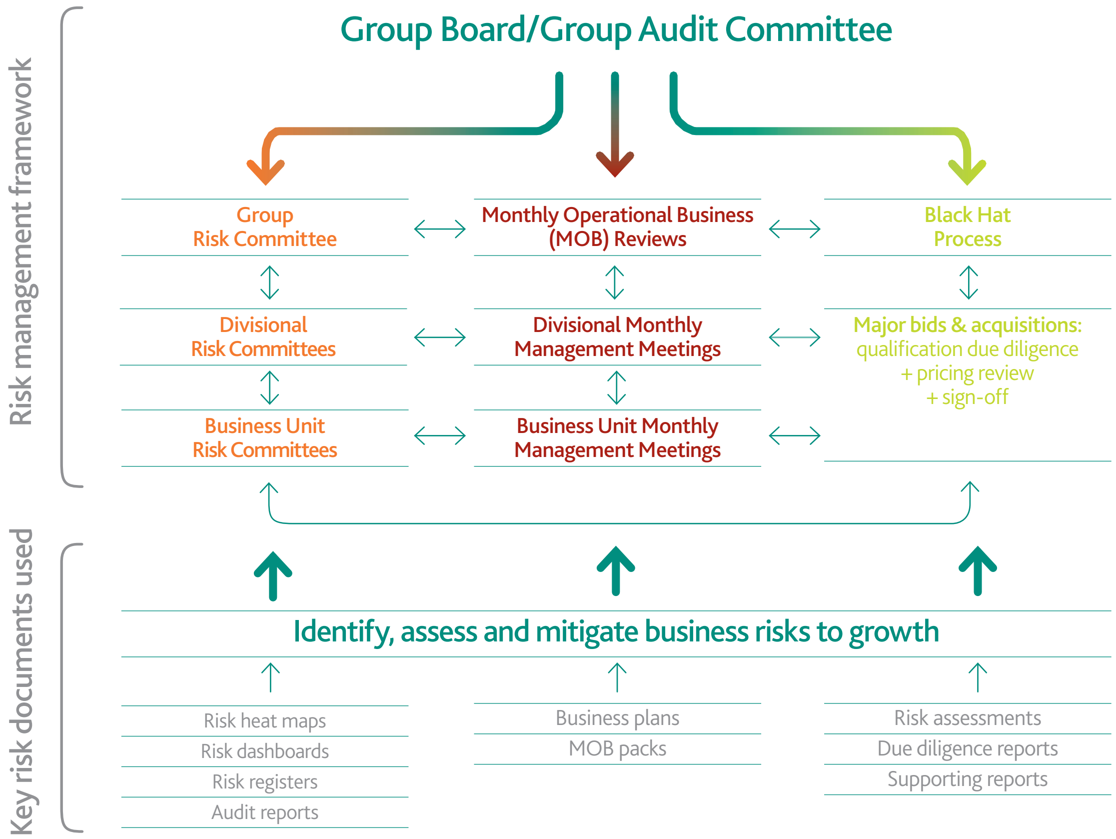
Taking controlled risks is an important ingredient in our continued growth and success. We are therefore focused on thoroughly assessing risks and understanding which risks can be controlled and mitigated and which are outside of our control. Where we believe that rewards are sensibly balanced against controllable business risks then we will proceed with specific business developments, such as new contracts and acquisitions.

Systems and procedures are in place across the Group to identify, assess and mitigate major business risks that could impact the delivery of our growth strategy. Monitoring our exposure to risk is an integral part of the MOB process, described on page 33.

Across a number of our businesses, including all the regulated businesses, the MOB process is supplemented by formally constituted risk committees and a 'Black Hat' process to discuss and seek Board approval regarding acquisitions and major bids.

At Group level, risk management is independently facilitated and challenged by the Group Risk and Business Assurance function, which reports to the Group Finance Director and independently to the Audit Committee. See page 33.

Risk management framework



Principal risk categories, potential impacts and examples of mitigations:

Key risk categories	Potential impacts	Mitigating activities include:
Financial	– Adverse effect on financial performance and brand reputation.	– Financial performance of each Business Unit is monitored monthly – Capital expenditure is subject to rigorous monitoring and budgetary controls.
Delegates and counterparty failure	– Disruption to supply chain, reputation risk and financial loss.	– Rigorous risk-based due diligence processes for the selection of key delegates and wider counterparties monitoring.
Operational risks	– Failure to meet contractual Service Level Agreements – Financial penalties – Potential loss of contracts – Brand reputation impacted.	– Risk committees and Board escalation of risks/issues – MOB process escalation – Operating performance indicators in place – Business resilience arrangements in place – Risk-based independent assurance – Centralised proactive and reactive PR team provides full issues management communications support.

Acquisitions and new contracts	– Planned synergies not achieved
	– Adverse impact on financial growth and performance
	– Financial penalties .
		– Rigorous risk-based due diligence
		– Black Hat process:
		  – Fit with strategy and pricing is subject to review and approval by the Board
		  – Appropriate contractual terms to ensure fair risk/reward profile
		– Robust integration and transition process.

Economic conditions	– Weaker economic conditions are a key driver for outsourcing – However, extreme economic uncertainty can result in a delay in buying decisions and lower discretionary spend across some market segments.	– Focus on 9 diverse public and private sector markets – Focus on widening scope of existing contracts to help clients save money – Supply of services that support essential client functions rather than discretionary activities – Initiatives to increase the efficiency of Group operations.
Attract and retain staff	– Lack of appropriate resources may lead to inability to develop and execute Business Plans – Poor staff morale – Competitive disadvantage.	– Training and development – Continual development through objective setting and appraisals – Competitive incentive and bonus plans – Succession planning – Comprehensive vetting process in line with roles.
Loss of sensitive or confidential data	– Contractual and regulatory penalties – Adverse media comment and reputation impact on brand.	– Robust information security framework, including policies and processes – Escalation to Risk committees and subsidiary boards – Training and monitoring programme across businesses – Sharing of best practice and issues through cross-Group forums – Regular monitoring through risk-based audits and follow-up of actions – Centralised proactive and reactive in-house PR team.
Fraud, bribery and corruption	– Potential for civil and criminal penalties for business and/or Senior Officers – Media comment and reputation impact – Prohibition from bidding for public sector contracts in EU.	– Appropriate policies and procedures – Anti corruption culture and a zero tolerance approach with a robust disciplinary process – Risk assessments of vulnerabilities – Monitoring and audit – Centralised proactive and reactive in-house PR team.
Financial services regulation	– Non-compliance with FSA and other key regulatory requirements – Financial and contractual penalties – Adverse impact on reputation.	– Appropriate policies and procedures – Monitoring by Compliance function – Escalation of risks to Risk committees and subsidiary boards – Risk-based assurance and actions for improvement – Independent reporting to Audit Committees.
Health and safety	– Non-compliance with health and safety regulations – Adverse impact on wellbeing of our employees.	– Rigorously applied health and safety policy and processes – Health and safety training – Health and safety audits undertaken twice a year.
Environmental	– As a low impact company our key environmental impacts are energy use, business travel, resource use and waste management which we manage proactively.	– Raising awareness of environmental issues and Group CR initiatives – Continue to measure and manage our carbon footprint and achieve energy reductions – Environmental management system in place – Environmental site audits carried out twice a year – Reduction of paper use and increase in recycling.

Service Birmingham

Productive employees supporting communities at lower cost

The challenge

Provide world-class information and communications technology (ICT) as part of our long term partnership to help drive service transformation across Birmingham City Council – improving services, cutting costs, increasing employee motivation and benefiting citizens in the local community.

Our approach

Our core contract focuses on ICT and we have used our success in this area to build a firm platform from which to transform the Council's business processes. This in turn has delivered significant cost savings to the Council while helping to improve services for citizens.

Result

Our business transformation programme has successfully delivered new capabilities enabling Birmingham City Council to realise over £156m of cashable savings so far. In November 2010 the Council agreed to expand our contract and extend it by five years – generating a further £135m in gross savings by March 2021.

Email speed up 500%

1 Building a platform for change

To date, Service Birmingham has invested some £50m in staff training, network upgrades, server replacements, hardware and software. As a result, email speed is up 500%, traffic has grown 30% and 94% of council employees surveyed are satisfied with the ICT support they receive.

Investors in Excellence Standard

2 Motivating employees

Staff motivation is critical to our strategy and we've invested £4.5m in staff training and development since the contract began. Our progress was recognised recently when we achieved Investors in Excellence re-accreditation and the ISO 20000 Service Management standard. Since 2008, we have achieved great success with an apprenticeship scheme for young people from Birmingham schools who were considered to be underachieving, and we currently have 14 young people enrolled.

Increased customer satisfaction

3 Improving Birmingham City Council customer communication

In 2010 we took full responsibility for day-to-day delivery of the Council's contact centre services. We recruited 176 new agents to handle more than 2 million customer contacts a year. Productivity and call handling quality have improved and customer satisfaction levels have increased. We have also given citizens better access to council services through the Council's award-winning Customer First programme, which is getting more queries resolved on first contact.

4 Transforming services

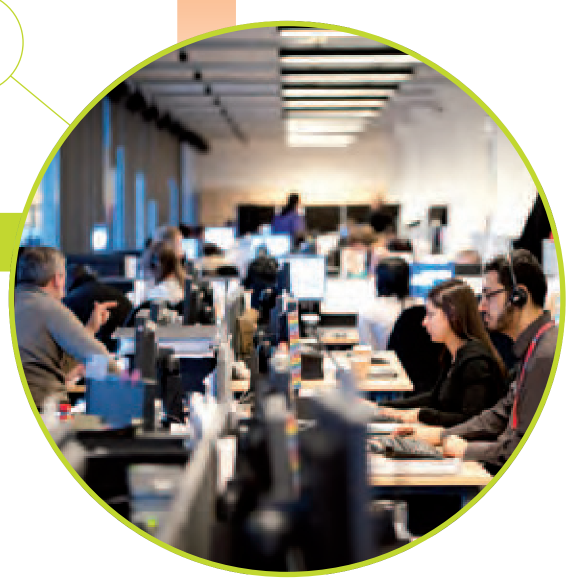
We have delivered new capabilities, while improving systems and giving employees the tools to do their jobs more effectively and efficiently.

We have supported the City Council in moving 3,000 employees into refurbished buildings, establishing a more productive working environment and reducing property costs by £2.8m in 2010/11 alone.

We have increased the efficiency of the Council's employee management systems and migrated payroll to a new SAP system for some 35,000 employees. By implementing SAP manager and employee self-service, we've enabled online performance and development reviews for 93% of employees.

We have increased the efficiency of information retrieval to support more efficient social care by deploying an eRecords solution in the Adults and Communities Directorate.

Increased efficiency



5 Creating jobs

We comfortably beat our target of creating 520 jobs by March 2011. In fact, we have created 600 since 2006 – a mixture of professional administrative, technical and clerical roles and a significant boost to the local economy.

600 jobs created

6 Supporting the local community

The staff benefit scheme receives 5% of Service Birmingham profits. Run by 7 staff representatives, it invests in schemes that support team-based community activities. To date it has given £1.6m to local projects.

We also run a scheme to help the long term unemployed back into work. We currently employ 22 homeworkers including lone parents, people with disabilities and carers.

£1.6m donated

4

Delivering business responsibly

We are committed to growing the business in a transparent and socially responsible way that is sustainable for all stakeholders over the long term. We focus on 6 main areas that reflect our stakeholders' interests and these remain our priorities for 2011:

4.1 Shareholders: Consistently delivering value to our shareholders

4.2 Clients: Building appropriate scale and capacity and optimising our infrastructure to support our clients' needs and deliver their services responsibly

4.3 Employees: Managing our people well by actively attracting and building a quality, diverse workforce of motivated and supported employees

4.4 Suppliers: Creating and managing our supplier relationships successfully to ensure quality, responsible and cost effective partnerships across the Group

4.5 Environment: Running a resource efficient business

4.6 Communities: Engaging and supporting our local communities.

Our principal non-financial KPIs

Aim	Progress 2010	2009
Shareholder value Grow dividends at least in line with earnings. Annual growth of total dividends.	19%	17%
Client resources: building scale and capacity Continue to grow our infrastructure of business centres to meet the needs of our growing business.	64 business centres	62 business centres
Employee resources: retaining people Maintain high retention rates for senior managers (annual salaries exceeding £90k p.a.). Maintain overall employee retention at or above industry average (2010: 86.5%, 2009: 84.3%)*	84% 83%	88% 84%
Create successful supplier relationships Annually audit all strategic suppliers against Capita's standards of business.	100%	100%
Controlling our environmental impacts Continue to measure and assess our carbon footprint (tonnes CO_2eq).	81,112**	79,212
Supporting our communities Continue to measure and grow our community investment annually, using London Benchmarking Group methodology.	£1.65m	£1.4m

* CIPD 2010 and 2009.
** Based on latest available greenhouse gas emission factors from Defra.

4.1

Delivering shareholder value

Aim: to create sustainable growth and deliver healthy investor returns.

We maintain a strong structure and controls, focus on clear financial KPIs and apply consistent, thorough risk management. See pages 32 to 39.

After investing in the business, we use surplus cash to deliver further shareholder value in 3 main ways: through acquisitions, dividends and share buybacks.

Progress: Including the proposed 2010 final dividend, £1.1bn has been returned to shareholders in respect of the last 5 years – £442m in ordinary dividends, £155m in special dividends and £473m through share buybacks.

Understand how we are improving accessibility to services. Go to pages 30 and 31.

Funding acquisitions to add value

In 2010, we spent £301m on 12 acquisitions. There is a good volume of opportunities valued at attractive levels and we expect this to continue through 2011. We will continue to be selective and disciplined when assessing opportunities. See pages 18 and 19.

Distribution to shareholders through dividends

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

A key element in the creation of shareholder value is a progressive dividend policy. Over the 5 years to 31 December 2010 we grew our dividend at a compound annual rate of 23%. We have continued our policy of gradually reducing dividend cover, which was 2.25 times for 2010.

Share buybacks

Opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. In 2010, we repurchased 15.4 million ordinary shares, representing 2.5% of the issued share capital, at an average price of 751p. We will continue to buy back shares if opportunities arise and market conditions allow.

Dividend per share	2010	2009	2008	2007	2006	2005
Interim dividend (p)	**6.60**	5.60	4.80	4.00	2.70	2.10
Final dividend (p)	**13.40**	11.20	9.60	8.00	6.30	4.90
Total ordinary dividend (p)	**20.00**	16.80	14.40	12.00	9.00	7.00
Special dividend (p)	**–**	–	–	25.00	–	–
Total dividend (p)	**20.00**	16.80	14.40	37.00	9.00	7.00
Dividend cover (excluding special dividend)	**2.25x**	2.31x	2.31x	2.34x	2.57x	2.66x

Totals	2010	2009	2008	2007	2006	2005
Interim dividend (£m)	**40**	34	29	25	17	14
Final dividend (£m)	**81**	69	59	49	39	32
Total ordinary dividend (£m)	**121**	103	88	74	56	46
Special dividend (£m)	**–**	–	–	155	–	–
Total dividend paid (£m)	**121**	103	88	229	56	46

Share buybacks	2010	2009	2008	2007	2006	2005
% of share capital authorised to repurchase	**10**	10	10	10	10	10
% of share capital repurchased	**–**	–	1.7	1.1	7.9	1.9
Issued share capital at year end (m)	**606**	617	611	609	617	671
No. of shares repurchased (m)	**15.4**	–	10.4	6.6	52.9	13.3
Average price (p)	**751**	–	659	665	465	375
Total cost (£m)	**116**	–	68	44	245	50

Shareholder returns	2010	2009	2008	2007	2006	2005
Total return to shareholders (£m)	**237**	103	156	273	301	96

4.2
Building scale and capacity and optimising our infrastructure

Aim: to have the right resources in place, both in terms of infrastructure and people, to satisfy clients that we have the operational scale and capability to deliver their requirements.

Progress: We have built up an extensive operational infrastructure and depth of capabilities which enable us to fully support our clients, provide flexible operating models and share economies of scale.

We continuously assess the needs of each business unit to ensure that we have the necessary people, infrastructure and resources for current and future development. Each month we review comprehensive operational management information through the MOB review process enabling us to manage our resources in a way that meets the needs of our clients and delivers our key financial targets. See page 33.

Wherever possible, we migrate and integrate systems, share resources and rationalise premises to optimise our infrastructure while maintaining and enhancing services. In 2010, we increased our focus on this and took significant steps forward, investing further in IT platforms in our life and pensions and registrar businesses and announcing the creation of a new business centre in Europe.

Sharing scale benefits

Our substantial scale and broad capability enable us to put forward compelling propositions to clients and are integral to us winning major integrated service transformation contracts.

The delivery of progressively larger contracts, with common processes and substantial numbers of transferring employees, fuels the growth of our operations and resources. As we increase scale, we are able to deliver more services and contracts through shared ICT platforms and operating structures, providing greater benefits to clients. They benefit not only from cost efficiencies but also from greater access to specialist skills and flexible service delivery models.

Our business centres, where we are able to run a broad range of shared services, form a central part of our service delivery infrastructure. At the end of 2010, we had 64 business centres onshore in the UK, nearshore in Ireland, the Channel Islands and Europe, and offshore in India.

Blended service delivery

Our infrastructure allows us to offer clients an onshore/nearshore/offshore blended delivery model structured to meet their individual needs. By combining onshore, nearshore and offshore resources we can deliver maximum service flexibility, quality and cost effectiveness. Our comprehensive security and quality assurance systems ensure consistent service quality across the entire infrastructure.

India

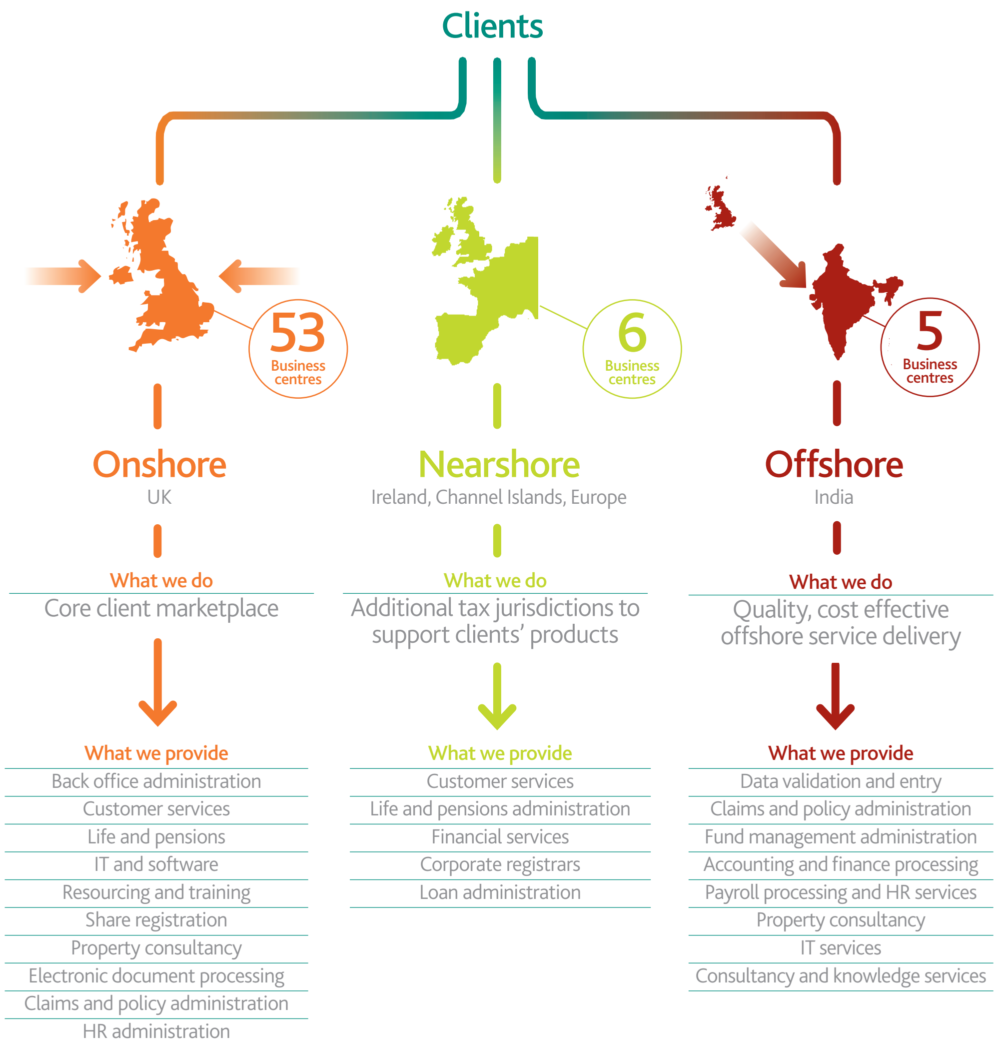
We established our offshore operations in India in 2004. We now have 3 sites in Mumbai, 1 site in Pune and 1 site in Bangalore. At the end of 2010, our Indian operations represented approximately 10% of our overall headcount. These operations play an important role in our business and long term growth strategy, providing high quality, cost effective English language based services.

Capita India is fully integrated into the Group and operates like any other Capita business with the same values, technical infrastructure and operating model. The sites share a combined management team to ensure they all benefit from their collective skills. We proactively recruit from the highly skilled graduate workforce that is available in these locations. Their skills, knowledge and excellent work ethic help us meet our objectives of delivering a first class service to our clients. Capita is widely regarded in India as a first class employer who will encourage and help employees grow and develop their careers. We therefore benefit from being able to attract and retain a highly skilled and professional workforce.

In addition to being the largest offshore operation for UK life and pensions administration, we continue to grow our BPO capability across other sectors such as general insurance, finance and accounting. Recently, we have expanded our service capability in India incorporating IT application development and testing, infrastructure consultancy and research and analytical services for UK based pharmaceutical companies.

> "By combining onshore, nearshore and offshore resources we can deliver maximum service flexibility, quality and cost effectiveness."
>
> **Vic Gysin** Joint Chief Operating Officer

Business centre network



Europe

We are also creating a new service delivery capability in Continental Europe. A number of our existing clients who have an international presence, especially across life and pensions and the wider financial services sector, are exploring the opportunity to replicate their successful UK arrangement with us in other European territories. In addition, we have in recent months established contact with a number of prospective new clients in Europe who are exploring the benefits of outsourcing their operations.

To embrace these opportunities requires Capita to provide both back office and customer engagement services in a number of different core European languages. In order to ensure that we are well positioned to respond to this demand, we are establishing a multi-lingual shared services business centre in Krakow, Poland, and plan to make this fully operational from early 2012. The centre will support these existing clients and new clients as demand grows.

Protecting our clients

Managing our clients' services responsibly means adhering to all legal requirements regarding data protection and information security. This ensures that we protect and maintain our reputation and that of our clients.

We have robust policies and procedures in place to govern data security, providing our employees with user guidance and online training. It is mandatory for all Capita employees to complete information security, data protection and fraud awareness training every year. The training is regularly reviewed and updated and those employees working in sensitive work areas receive specific, detailed training related to the specific client processes they are working on.

Each division of Capita has clear incident procedures for identifying, investigating, reporting and rectifying any security breaches that may occur.

Our employee vetting policy applies to all employees, including contractors and temporary employees.

4.3

Managing, motivating and supporting our employees

Aim: Our people are critical to our success. To be a sustainable business we need to build a diverse workforce with the right skills so that we can meet the needs of our business as it grows and continue to deliver high quality services to our clients.

How we manage our people

We have a number of Group-wide policies which focus on particular areas including equality and diversity, and health and safety. We also have an ethical code of business conduct and statement of business principles. All our policies comply with or exceed the legal and regulatory requirements of the countries in which we operate.

Our culture

Over 70% of our employees have transferred into Capita from their previous employers, who outsource activities to Capita, or through acquisitions. Successfully managing large-scale employee transfers is one of our strengths and our experienced HR integration team consult with all potential transferees throughout the whole process, providing support and information about our business and culture. We have a clear set of values which are embedded across our business and we work hard to establish and maintain a Group-wide culture.

Engaging our people

We use a range of communication tools, encouraging open, two-way communication through formal and informal channels. We also conduct an annual employee survey, allowing us to identify where we are performing well, and areas which need improvement. In our 2010 survey the areas in which our employees thought we excelled were: supporting their new ideas for improving services, ensuring they felt valued and respected by their colleagues and our open door approach. The areas where we needed to explore further and address were: to encourage more cross-working between the individual businesses within Capita, and ensuring that managers keep employees up-to-date with developments within their business.

Recognising and rewarding performance

We motivate our employees by recognising and rewarding their individual performance both financially, through competitive remuneration packages, and through our Capita People Awards scheme. These awards celebrate those employees who have demonstrated commitment to our values.

We also offer our employees the opportunity to share in Capita's success through joining our sharesave and share ownership schemes. In 2010, the schemes had 5,536 participants, with 17.47% of our eligible employees taking part.

Employee safety and wellbeing

We are committed to providing a safe working environment for our employees and contractors. We have detailed training procedures and programmes in place to proactively identify and manage any risks to our people. If an employee is working in a high risk area – a lone field worker for example – then additional training is provided. We have a good health and safety record and have achieved a 38% reduction in reportable accidents based on our 2004 baseline. In 2010, our RIDDOR accident rate was 1.43 per 1,000 employees (2009: 1.65).

In addition to ensuring that our employees are safe at work their wellbeing is also of great importance and we have health advice in place on our intranet for both employees and managers. We recognise that by improving wellbeing in the workplace this can help our people fulfil their potential and lead to a reduction in absenteeism.

Learn how we designed quick and easy to use application forms. Go to pages 52 and 53.

Our CR leadership

Gordon Hurst
Group Finance Director
Overall responsibility for CR activities and strategy

Group Board
Specific CR leadership responsibilities

- **Paul Pindar** – Charitable support
- **Maggi Bell** – Community engagement
- **Andy Parker and Vic Gysin** – Employees and clients
- **Gordon Hurst** – Supply chain and environment

CR Steering Group
Develop key policies and procedures for specific areas

- **Shona Nichols** – Community engagement and charitable support
- **Juliet Feeny** – Charitable support and CR reporting
- **Claire Neal** – Employees
- **Andy Brockie** – New business development
- **John Kost** – Environment
- **David Murphy** – Supply chain
- **Gaynor Rich** – Business practices

Developing leadership and talent

We ensure that our people have the right skills and knowledge to do their jobs and help deliver our business strategy. In order to retain the best people we give them the opportunity to grow and develop.

Our training programme 'Capita Manager Academy' ensures we equip our senior managers with the right skills to respond to our clients' needs and manage, support and motivate our people effectively. Over 2,500 days training were delivered through this in house programme in 2010.

We encourage knowledge sharing across the Group and actively reassign managers to new business areas. Succession planning is also a key element of our strategy, ensuring that we have the appropriate resources in place to maintain stable leadership.

We support all our employees who wish to develop their careers, encouraging them to progress through training. Under the 'Capita Academy' programme we deliver training through the most appropriate channel and provide 4 main types of training:

- Job specific courses
- Personal development courses
- Vocational courses
- Professional qualifications.

In 2010, we invested £8.3m in employee training, providing 6,327 training days for our employees. In addition to formal training many employees receive workplace training, coaching and group instruction. By developing our employees and offering them a range of career development opportunities we ensure that they are motivated and committed – this can be demonstrated by our high retention rate. In 2010, our retention rate for senior managers was 84% (2009: 88%) and our overall employee retention rate was 83% (2009: 84%).

Recognising individuals' talents

Attracting, selecting, developing and retaining a highly skilled workforce helps to drive our business performance. By developing our employees' talents, while recognising their differences, we benefit from their unique skills and are able to meet the needs of our clients and their customers.

We use a network of diversity champions across the business to help communicate and deliver our diversity strategy. In 2010, our online diversity awareness training was updated to reflect the changes in the new Equality Act. It is compulsory for all our employees to complete the new training over the next 12 months.

Understand how we reached our target market in a limited time. Go to pages 52 and 53.

To create the conditions for a diverse workforce, we recognise that we have to offer a degree of flexibility over working arrangements. Where possible we support part-time working, job sharing and flexible working hours. In 2010, 14% of our employees worked part-time. We aim to have a culturally integrated workforce and where possible we employ local people so that our workforce reflects the diversity of our local communities.

We monitor the diversity of our workforce using our online HR administration system, and encourage our employees to disclose their ethnic origin. In 2010, 64% (2009: 53%) of our employees stated their ethnic origin and of these 25% (2009: 17.5%) were from ethnic minority groups.

Supporting people through change

The Capita Group's operations are extremely broad and inevitably at any one time some will be expanding whilst others are retracting. We believe it is essential to keep employees fully informed of business developments in an open and honest manner. We also work closely with union representatives. As the Group overall has grown year on year, we are often able to offer suitable opportunities to affected employees in other parts of the Group. Where suitable opportunities are not available in the Group, our HR advisers help with external redeployment opportunities. When an employee opts to take voluntary redundancy, to suit their personal circumstances, we often offer outplacement support services to equip them with the right tools to support them in their new career move.

"We have a clear set of values which are embedded across our business and we work hard to establish and maintain a Group-wide culture."

Andy Parker Joint Chief Operating Officer

CR performance	2010	2009
Senior management retention rate	84%	88%
Overall employee retention rate	83%	84%
Health and safety (accident frequency rate per 1,000 employees RIDDOR)	1.43	1.65
Employee diversity		
Male/Female split	53%male/ 47% female	52% male/ 48% female
Male/Female split for management (salaries £59k- £89k p.a.)	74% male/ 26% female	74% male/ 26% female
Male/Female split for senior management (salaries exceeding £90k p.a.)	88% male/ 12% female	88% male/ 12% female
Percentage of employees from ethnic minority groups	25%*	17.5%
Percentage of employees working part-time out of total workforce	14%	15%
Employees by location		
UK and Europe	89.6%	90%
India	10.4%	10%

* Based on 64% of our employees disclosing their ethnic origin (2009: 53%).

4.4

Managing our supply chain

Aim: Capita has a significant number of supplier relationships. We aim to manage our supply chain effectively to meet the needs of our clients and ensure responsible business practices across our supplier base. This helps us to mitigate against any risks and protect our reputation for integrity and reliability.

How we manage our suppliers

Our supplier relationships are managed both at a Group level by the Group procurement team, and at a local level by procurement specialists in the businesses. We also manage some of our clients' supplier relationships.

We classify our suppliers into categories, dependent on the value of the contract and coverage across our operations. The Group procurement team manage our relationships with our 28 strategic suppliers, who provide services to the whole Group. These contracts are negotiated centrally and are worth £150m in total per annum.

We have a responsible procurement policy and an operating framework which details our commitments to meeting the highest ethical standards, and ensures we comply with relevant legislation and best practice.

Selecting our suppliers

All suppliers who wish to work with us are required to undergo our supplier assessment process via our online portal, providing us with core information about their business and the nature and scope of the services they can offer to Capita. They must answer questions on their business ethics, health and safety record, environmental credentials and their commitment to CR. This allows us to monitor and select suppliers who meet our business and CR standards. Where a supplier does not meet our standards we are committed to assisting them with the objective of improving their performance to meet our standards.

Enhancing our relationships with suppliers

We understand the importance of building mutually beneficial relationships with our suppliers. By creating these relationships and using our purchasing power we are able to secure best value goods and services, which can directly improve our business performance and that of our clients.

To support local suppliers and encourage supplier diversity, we provide all suppliers with the opportunity to work with us. We acknowledge that smaller suppliers may face challenges in the procurement process due to lack of time and resources. Where this is the case we try and assist them throughout the process to ensure a level playing field.

CR performance	2010	2009
Annually audit all strategic suppliers	100% strategic suppliers audited	100% strategic suppliers audited
Increase the number of audits for active suppliers	55% active suppliers audited	50% active suppliers audited
Engaging with our suppliers	All new suppliers registered on online portal, to ensure they meet our CR and business standards	Launched online supplier registration portal

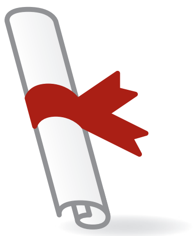
4.5

Running a resource efficient business

Aim: Although we are a low-impact organisation, our aim is to manage and reduce our environmental impacts and use our resources efficiently.

How we manage our impacts

We operate a robust environmental management programme across the Group, based on ISO 14001 standard, and have a comprehensive Environment Policy. This allows us to monitor and manage our impacts and improve our performance. It also ensures that we are compliant with relevant environmental legislation.



Explore what training opportunities we are offering to our employees in Birmingham.
Go to pages 40 and 41.

Reducing our carbon emissions

We have published our carbon footprint annually since 2005. In 2010, our total carbon footprint was 81,112 tonnes CO_2eq, (2009: 79,912 tonnes), an increase of 2.4% in line with the growth of the Group (Group revenues increased by 2%). The increase in our carbon footprint was primarily due to our growing operations in India.

Although we are already a low-carbon business, we recognise that there are opportunities to further reduce our impact, specifically in the areas of:

- energy use at our sites
- business travel.

In 2006, we commenced an energy reduction programme which has achieved savings of 39% or 6,570 tonnes of CO_2eq since it began. We continue to roll this programme out across our sites. Where our sites are subject to the Carbon Reduction Commitment (CRC) regulations we are required to monitor and report our energy consumption. We use smart meters to help sites to manage and meet their CRC obligations and establish good energy management practices.

Business travel is our 2nd biggest impact. In 2010, we continued our efforts to reduce our business travel across the Group, promoting the use of video and teleconferencing. In 2010, we made 179,000 conference calls (2009: 116,000), an increase of 54%. We also invested in Telepresence high definition video conference suites at a number of our offices in the UK and India, providing a platform for people to work collaboratively from remote sites.

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

In 2010, we completed the Carbon Disclosure Project and were awarded an overall ranking of joint 6th place in the Carbon Disclosure Leadership Index, demonstrating that we have considered and addressed business-specific risks and that we have good internal processes for managing our carbon emissions.

Resource use and waste management

Our aim is to reduce the overall levels of waste we produce, and increase our recycling. We engage with our employees, encouraging them to use paper wisely, only printing where necessary. We have Group-wide recycling schemes for specific waste, paper, mobile phones, redundant IT equipment and consumables such as printer cartridges. In 2010, we recycled 2,263 tonnes of paper.

We not only want to reduce our environmental impacts but to extend our influence with our clients to help them reduce their environmental impact as well. For example, when we are implementing new systems for our clients, we focus on removing redundant processes, and replacing paper based services with online services, wherever possible.

We work with our suppliers, not only encouraging them to provide us with better value goods, but also to provide us with more environmentally responsible products. We additionally look at the logistics of delivering goods, to reduce our carbon emissions.

CR performance	2010	2009
Total carbon footprint for Capita Group (tonnesCO_2eq)	81,112	79,212
Energy savings made at our 20 largest sites since 2006	39%	28%
ISO 14001 accredited sites	51	45
BT conference calls made	179,000	116,000
Undertake environmental site audits twice a year	100% audits completed	100% audits completed
Engaging employees	Promoted environmental initiatives across the Group through 'Going Green' campaign	Worked with 'energy champions' to encourage employees to make energy savings

4.6

Engaging and supporting local communities

Aim: Our business places us at the heart of the communities where we operate, and where many of our employees live. Our aim is to make a positive impact in these communities, delivering economic and social benefits.

How we work with our communities

We work with our communities in a number of ways, helping to regenerate local communities and through our community investment programme and charitable support.

Our community investment programme is applied centrally at a Group level and also at an individual business level, including our operations in India, allowing us to address specific local needs.

Economic impact and regeneration

Through our operations we improve service delivery for our clients, including helping local authorities to reduce the costs and improve the quality of public services. This in turn helps to minimise the taxation burden on local communities and enhances frontline citizen services.

As an employer we contribute to local economies directly, through salaries and also through national insurance contributions. Wherever possible we use local suppliers, particularly SMEs, and when our operations require further resources we look to recruit from local communities. We also provide support to the unemployed in our local communities by funding apprenticeship roles.

Community investment programme

In addition to the benefits our business and services bring to local communities, we also contribute through our community investment programme, tackling exclusion of all kinds. We have an employee volunteering scheme, encouraging our employees to donate their time, skills and resources to support local community projects.

We often work collaboratively with other businesses in the local community, helping to build and strengthen relationships. By using our skills and experience we ensure that we make a real difference in the most effective way.

We use the London Benchmarking Group methodology to capture as much of our community investment data as possible and to put a monetary value on our contribution. As the Group is made up of a wide range of geographically spread operations, the extent of our data capture is limited. In 2010, we estimate that our total community investment was £1.65m (2009:£1.4m).

Charitable support

We have an active charity programme, Capita Helping Hands, and support our employees in raising funds for charity. Our central charity team organises a number of Group-wide activities throughout the year and are supported by a network of charity champions across our operations.

We have a central payroll giving scheme and in 2010, we were awarded the Silver Payroll giving award, recognising the 1,400 employees who donate to over 219 charities through this scheme. Through our matched funding scheme we also support our employees in their individual charitable efforts, donating £88,000 in matched funding in 2010.

We support one corporate charity partner and in 2010 our 3 year partnership with Macmillan Cancer Support came to its conclusion. We had set ourselves a target of raising £1 million through our partnership. At the end of 2010, we had exceeded our target and raised over £1.4 million for the charity. Our employees have chosen Alzheimer's Society as our new corporate charity for the next 2 years and we have set ourselves a target of raising £1 million by the end of 2012.

CR performance	2010	2009
Total community investment (using London Benchmarking Group methodology)	£1.65m	£1.4m
Total corporate donations including support for our charity partner and matched funding scheme, other CR initiatives and disaster appeals	£0.7m	£0.5m
Employee fundraising for corporate charity partner	£600k	£440k

Home Access programme

Helping low income families get online

The challenge

In October 2009 we signed a contract with Becta to administer the Home Access programme – a national initiative across England to help low-income families gain access to a computer and the internet at home. The scheme went live in January 2010, aiming to reach 270,000 low-income households. Many of the target audience were hard to reach and it was essential to make sure outreach was balanced and fair.

Our approach

We designed and ran a fair, secure process for delivering grants and created an informed sales force to get the message across.
We devised attractive sales messaging and used flexible marketing to generate a great deal of interest in a short time.

The result

Over 258,000 families received the grant and now have access to the internet.
In addition, thousands of tailor-made Home Access packages with specially adapted equipment have been awarded to children with severe disabilities or special educational needs.

Less than 3 months

1 Rapid set-up

In less than 3 months we designed and implemented a robust process for administering the grants. We set up a CRM system to manage the data and worked closely with Barclaycard, who supplied pre-loaded credit cards, to limit fraud and ensure that grants were issued promptly. We hired a sales and support team with education experience and, because we were handling information on children and personal finances, implemented the highest levels of security including CRB personnel checks.

2 Demand generation

We had to generate a lot of interest in a limited time. The primary audience was hard to reach, and confidentiality and statutory restrictions meant we could not communicate via schools. Our strategy and messaging had to be highly targeted. Alongside an extensive media programme, we teamed up with a wide range of organisations including housing associations, local authorities and community groups to get the message out. To ensure fair allocation of grants we used government figures to tailor activity to the response from each region.

Extensive media programme

10,000 calls an hour generated after featuring on GMTV

3 Handling the response

Service delivery had to be flexible to deal with enormous swings in volumes caused by spikes of national media coverage. Call centre employees did not work to a rigid script, so had more flexibility to engage with callers. Initial eligibility checks were carried out over the phone, so friendliness was key to securing trust. Customer satisfaction with our call handling was extremely high – 90% of people surveyed were very satisfied (Source: IPSOS MORI). We gave Barclaycard daily updates with details of eligible applicants so that grant cards were issued promptly, and we were informed when grants were redeemed.

4 Processing applications

We included clear guidance notes with the application forms, which took no longer than 15 minutes to complete. Completed forms were scanned and assessed, and applicants knew if they were successful within 3 weeks.

15 mins to complete

“Having the computer has given my son a real thirst for learning.”

Marrissa Mullans

“It’s cool because I can do my homework on it.”

Shakeel Parvez (aged 11)

5 Family goes online

Successful applicants received a pre-loaded Barclaycard and a list of approved suppliers from which they could buy their Home Access package.

Maintaining performance across our divisions

Each of our operating divisions consists of a number of businesses and major contracts.

The common aim is to deliver service excellence and generate profitable growth through:

5.1 Aligning each business with the Group's overall strategy and objectives

5.2 Investing in service and product development and appropriate sales and marketing activities

5.3 Maintaining a simple, pragmatic divisional structure to share resources and economies of scale.

Our 5 divisions in 2010

1. Life & Pensions Services
- Life & pensions services
- Corporate pensions
- Capita India

2. Integrated Services
- Integrated HR services
- Call centre & specialist services
- BBC contracts
- Criminal Records Bureau contract
- Gas registration and ancillary services
- Central government services
- Capita Symonds (property consultancy)

3. Insurance & Investor Services
- Shareholder services
- Financial administration services
- Trust services
- Treasury services
- Insurance services

4. ICT, Health & Business Services
- IT services
- Health services and medical assessments
- Business travel and conferences
- Service Birmingham
- Consulting

5. Professional Services
- Software services
  - Children's services
  - Local government
- Local government services
- Local government strategic partnerships
- Strategic children's services
- Assurance and testing
- Communications
- Total document solutions
- Debt management services

5.1
Alignment with Group strategy

The divisional structure that forms the Group is straightforward and pragmatic. The operating divisions and the businesses within them are aligned with and deliver the Group's overall objectives and strategy. They all focus on securing strong, sustainable growth, both organically and by acquiring complementary businesses.

The divisional structure supports an individual focus for each business, while providing ready access to the Group's wider resources, expertise and economies of scale.

Business planning

Each business produces its own annual business plan outlining specific strategies and considerations and setting performance targets for the following year. The business units' financial plans feed into the Group financial model.

The MOB review process ensures regular monitoring and reporting of performance against targets and is an effective forum for planning ahead, identifying opportunities and successes, solving issues and sharing expertise and support. See page 33.

5.2
An individual business focus

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

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

Recognition

The success of our business and service focus is acknowledged through the breadth and number of industry awards and accreditations we attain. We have also helped many of our clients win awards through our role in delivering improvements in operations and services. Some examples of these awards are highlighted in this section and a more comprehensive list can be found at www.capita.co.uk.

5.3
A flexible divisional operating structure

Our flexible structure is regularly refreshed as the Group develops. We move businesses, contracts and managers across the divisions to ensure the best match of leadership and resources as the Group grows. The businesses benefit from the powerful combination of individual focus and the ability to reach out across the Group to share operational skills and resources, benefit from economies of scale and centralised procurement, create and deploy innovation, and harness the best of ICT and business processes.

Many of our contracts draw on expertise and resources from across a number of Group businesses. We have established robust models of collaborative working with clear lines of responsibility, consistent communication and reporting to offer a seamless approach to our clients.

2010 divisional structure

In 2010, the Group consisted of 5 operating divisions, plus a Group Sales and Marketing division. Each operating division brings together activities with similar operating models or client bases. Each major contract is managed within the division which best meets its operational, regulatory and management requirements. To provide greater transparency we report financial progress in 2010 for 8 business segments, splitting Insurance & Investor Services into 2 segments and Integrated Services into 3 segments.

2011 divisional structure

To reflect the Group's continued expansion in 2011, we have created a further business segment and moved some operations across the divisional structure to maximise management focus and create smaller more flexible business units to fuel growth. These changes have also provided us with an opportunity to recognise and promote some of the exceptional talent we have within Capita.

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

1. Life & Pensions Services

	2010 £m	2009 £m
Turnover	**529.2**	520.7
Underlying operating profit	**58.7**	62.1
Underlying operating margin	**11.1%**	11.9%
Capex	**64.3**	28.8

Comprised all our life and pensions outsourced administration operations, including open and closed books of individual life and pensions policies and occupational pension schemes. Our operations in India were also managed within this division.

We are the leading life and pensions outsourcing provider and service our clients through a blended onshore/nearshore/offshore delivery model. We continue to develop common IT platforms (such as Elixir and HartLink) and have successfully implemented a single, centrally hosted telephony system across many parts of our life and pensions operations. These improvements allow us to provide further scale benefits, cost efficiencies and excellent customer service to our clients.

2010 performance

AXA/Friends Provident*: Our contract to administer 3.2 million policies is progressing well. Repatriation of operations from a client-run contact centre in India to Capita's contact centre in Craigforth near Stirling has been completed and customer feedback has been positive. Transformation programmes are underway, with the UK relocation programme delivering ahead of plan. We continue to focus on simplifying and modernising the complex IT infrastructure and reducing the cost base of the business. See case study on pages 20 and 21.

Prudential: We successfully completed our contact centre transformation programme and continue to work with Prudential on enhancements to the back office operation. Our upgrade of HartLink, our proprietary platform, went exceptionally well with processes now running more effectively and user interfaces more intuitive and easy to use. The level of customer interaction with the new online services has also been positive. As in previous years the consistently high-quality service we deliver to Prudential was recognised by major industry awards.

Phoenix/Royal London: Successfully signed separate contracts to directly support Royal London from our Glasgow operation and continue to deliver a high level of service quality to both Royal London and Phoenix Group (formerly Pearl).

Aviva: Our outbound work for Aviva commenced in Belfast in September 2009. We have contacted in excess of 54,000 customers and been extremely successful in generating new business, retaining existing business and providing qualified leads. In April 2010 we also commenced the administration of a book of offshore investments for Aviva; this builds on our track record of delivering a full range of administration services for cross-border life assurance portfolios, and further strengthens our presence in Dublin.

Zurich: We have continued to maintain high levels of customer service and helped the Zurich and Sterling brands to retain their 'Five Star' industry ratings from the advisor community. The Zurich account also received 'Investors in People' re-accreditation in November. We have delivered market leading retention initiatives and helped to develop new products. In addition we have focused on transforming and streamlining processes resulting in significant improvements and efficiencies in service.

Co-operative Financial Services: We successfully completed the launch of the CFS Annuity Bureau, the platform migration of Collectives business from Threads to Utopia V and phase one of implementing archive document scanning to increase efficiency. An innovative review of service level agreements led to end-to-end measures on 100% of customer transactions. We achieved 98% of our live service level agreements in 2010 and we were awarded 'Team/Company of the Year' at the 2010 EG Awards for operational excellence.

Abbey Life: We have continued to deliver good service for this book of business, as demonstrated by positive customer satisfaction levels shown in a recent Abbey Life policyholders survey.

Capita Hartshead: We have maintained our strong presence in pension scheme administration and actuarial and pensions consulting. With excellent support and loyalty from our client base we have renewed our contracts to provide group pension administration including those on behalf of the Environment Agency and Thames Water.

Offshore: Capita India is an integral part of Capita's blended onshore/nearshore/offshore delivery model and now services 18 different clients from 5 sites. In addition to being the largest offshore operations for UK life and pensions administration, we continue to grow our BPO capability for other sectors such as general insurance and finance and accounting. Recently we have also expanded our service capability in India. See page 44.

2011 priorities

- Retain and grow our leading position as UK BPO provider in life and pensions
- Focus on developing our relationships further with existing clients and continue to win work from new clients
- Extend our operations into Europe where appropriate and requested by existing clients
- Move towards common functional service management and increase usage of our proprietary workflow management system
- Continue to develop our employees to further enhance our service capability
- Use innovation to transform our operations and drive economies of scale
- Optimise offshore capability in Capita India and grow our IT services business in Pune
- Successfully establish a nearshore facility in Krakow, Poland.

"Capita's work in Belfast has been instrumental in enabling Aviva to achieve our 2010 Existing Customer Management programme objectives. Capita have excelled in brand empathy, product and segment knowledge, and customer empathy which has resulted in conversion rates well above our expectations."

James Henderson Head of Customer Management, Aviva

* The majority of the business that Capita administers on behalf of AXA Sun Life transferred to Friends Provident in September 2010.

2. Integrated Services

Integrated services
(excluding HR solutions and property consultancy)

	2010 £m	2009 £m
Turnover	260.6	340.0
Underlying operating profit	48.2	55.0
Underlying operating margin	18.5%	16.2%
Capex	3.4	6.8

HR solutions

	2010 £m	2009 £m
Turnover	261.2	280.6
Underlying operating profit	28.8	26.2
Underlying operating margin	11.0%	9.3%
Capex	1.4	1.4

Property consultancy – Capita Symonds

	2010 £m	2009 £m
Turnover	309.0	258.1
Underlying operating profit	25.6	23.1
Underlying operating margin	8.3%	9.0%
Capex	1.1	2.1

Comprised all our major central government contracts, our property consultancy, contact centres and our portfolio of HR services: our resourcing businesses, integrated HR solutions, HR and payroll administration, learning and development and outplacement services.

The businesses within this division faced challenging market environments in 2010, however their focus on operating as efficiently as possible enabled them to perform steadily.

2010 performance

Criminal Records Bureau: We have continued to maintain our previous good levels of service performance throughout the year and responded well to the changing requirements of both the CRB and the Home Office. In a joint submission with CRB, Capita received an award for the 'Best Outsourced Partnership' at the North West Contact Centre Awards.

TV Licensing: We have comfortably met service levels for 33 consecutive months, achieving all our KPIs. Despite the current economic climate we have helped to keep licence fee evasion low and increased internet sales to 2.1 million licences.

BBC Audience Services: We completed the transition and transformation programme and moved to one site in Belfast, a satellite office in Glasgow and some homeworking.

Central Government Services: Our contract to operate the Gas Safe Register completed its first full year of operation and in April we commenced a successful renewal process with all registered gas engineers. For the Learner Support Programme we processed over 400,000 applications promptly and made weekly payments to learners in excess of £500m per annum. Constructionline, our contract to provide a register of pre-accredited construction companies for public sector purchasers, has increased its user base and registered firms despite the challenges currently faced by the construction sector. The website has also been enhanced to include a noticeboard which displays contract opportunities by region.

Home Access Grant Administration: This contract to administer and market the grant on behalf of Becta was successfully delivered with over 258,000 eligible families receiving the grant and gaining access to the internet. The scheme was launched within just 3 months and targeted hard to reach families across England. See case study on pages 52 and 53.

Resourcing and development: Against a challenging background of reduced recruitment across the public sector, we have secured key new contract wins for both recruitment and training including a 3 year managed service for Sony UK, a 5 year contract renewal to provide 1,600 contractors into the nuclear market and a 12 month extension of the CIPHER contract, which is a framework agreement set up with DWP to supply interim workers to central government. Recruitment activity to supply the Office for National Statistics, with over 35,000 staff for the 2011 Census, is in full flow and the marketing to support this drive has delivered over 3,000 leads to the recruitment website, complemented by comprehensive use of regional press, local radio and social media.

HR Solutions: We continue to play a key role delivering HR and payroll services across the public and private sectors. With 11 dedicated service centres we are the largest UK HR services BPO provider.

Capita Symonds: We have performed well in continuing difficult market conditions, moving from 8th to 3rd place in the industry league tables for UK consultants, while helping our clients to win or be highly commended in over 20 industry awards nationwide.

In terms of major projects, a multidisciplinary Capita Symonds team is designing 1 of the 4 portals on the London Crossrail project.

We also made 2 acquisitions during the year – Inventures and NB Real Estate – which allow us to further increase the scope of our full service proposition across the public and private sectors. We have made 8 acquisitions in the last 3 years and all these operations have now been fully integrated into the business and rebranded as Capita Symonds.

Although primarily focused on the UK and Ireland, we are also exploring international projects where we can work with partners to deploy our high value consultancy services. In October 2010, we formed a partnership with Ghassan Al-Nemer Holding Group to deliver project management and design services in the Kingdom of Saudi Arabia where current infrastructure and public sector building programmes are valued at some USD 35bn. We also continue to pursue opportunities and expand our operations in Abu Dhabi, North Africa and India.

2011 priorities

- To maintain and exceed current levels of service across our major contracts
- To meet the objectives of the CRB and the Home Office following the Ministerial Review
- To work with Government departments to respond to the Comprehensive Spending Review by helping them to provide quality services at reduced costs
- Continue to meet recruitment targets for the 2011 Census
- Continue to grow our RPO, managed resourcing solutions and outsourced learning and development offer to meet market growth trends
- Continue to penetrate the local government sector offering our portfolio of HR services and helping authorities to respond to fiscal pressures
- Across Capita Symonds, continue to build major programme management capability through acquisition and recruitment. Grow our niche capability in target sectors such as renewable energy, waste management and transport technology.

"2010 has been another positive year working with Capita. Building on what is now a long-standing partnership, together we have continued to provide an effective and efficient service for customers applying for CRB checks. Capita continues to assist us in meeting the challenges in our aim to help protect children and vulnerable adults."

Steve Long CEO, Criminal Records Bureau

3. Insurance & Investor Services

Insurance Services

	2010 £m	2009 £m
Turnover	**184.9**	246.8
Underlying operating profit	**23.3**	28.4
Underlying operating margin	**12.6%**	11.5%
Capex	**1.7**	2.4

Investor Services

	2010 £m	2009 £m
Turnover	**181.2**	174.5
Underlying operating profit	**42.2**	35.1
Underlying operating margin	**23.3%**	20.1%
Capex	**10.2**	12.8

Comprised our businesses delivering financial services propositions to the corporate and consumer markets. Key services are share registration, fund administration and insurance policy and claims administration, financial advisory and treasury services, insurance services for motor (standard and niche), household and pet insurance products, as well as trust administration and fiduciary services across a range of tax jurisdictions.

The majority of these businesses continued to perform strongly. In our insurance business we consolidated some of our operations to share expertise and infrastructure.

2010 performance

Capita Insurance Distribution: In the year we acquired Sureterm Direct, allowing us to further align our classic car insurance businesses. We were awarded contracts with Virgin Money, to deliver the administration of all Virgin Money's home and motor insurance policies, and with AXA/Sainsbury's Pet Insurance to provide sales and customer service. We also maintained our 5th place ranking in the Insurance Age 2010 poll of Top 50 Brokers ranked by brokerage income.

Marsh: During the second half of the year, Capita expanded its operational support to the leading insurance broker and risk adviser. In a supplementary agreement Marsh transferred to Capita the back office operations of their recent acquisition of the former HSBC insurance Brokers Ltd. We created a further 90 jobs in our Norwich operations and successfully completed the integration by December 2010.

National Dental Plan: Our acquisition of NDP, one of the largest providers of corporate dental plans in the UK, extends our range of tailored insurance services to both public and private sectors and is already delivering to plan.

Shareholder services: In 2010 we handled in excess of 375 corporate actions, with capital raising exercises by 30 clients accounting for over £5bn, including the successful £3.2bn rights issue for 1.1 million shareholders of National Grid.

We secured 15 new contracts from other suppliers and our registrars business won over 50% of UK IPO flotations including being appointed registrar to the Ocado Group Plc.

Capita Financial Group: The business now has assets under management of £34.8bn and has grown its business in its core locations in the UK and Ireland. It has also substantially completed the process of migrating its funds under administration and management to its market leading Fund Accounting platform. We signed a number of new or renewed contracts including with Royal London, JM Finn and Tuscan Connell. An update regarding the Arch cru funds can be found on page 117.

Trust Services: We have continued to acquire niche businesses that increase our existing nearshore capabilities and expertise. Capita's asset services business is the highest rated service provider per Fitch and Standard and Poors ratings, and Europe's largest independent third party commercial mortgage servicer. We commenced our contract as master server to the €80bn Irish Government's National Asset Management Agency real estate portfolio and have successfully loaded €73bn of assets to our loan portal.

Sector Treasury Services: An independent provider of capital financing, treasury and strategic advisory services to the public sector. In October 2010 we took over the treasury consultancy business from ICAP creating an enhanced resource to continue to provide market-leading services to the combined client base.

2011 priorities

- Complete Capita Insurance Distribution's transformation programme
- Continue to deliver robust compliance and risk mitigation to respond to FSA regulations
- Continue to identify suitable bolt-on acquisitions to enhance our position in the insurance outsourcing market
- Identify cross-selling opportunities across the Group such as those arising across our health operations
- Refocus business development opportunities in Capita Financial Group to secure profitable business where the risk/reward balance is appropriate
- Mitigate effect of declining shareholder numbers through product diversification and global fee structures.

"Sainsbury's Pet Insurance moved to Capita in March (sales) and August (service & claims) and since then both sales and customer service performance have exceeded expectations.

Not only has the pet product been "flying off the shelves" in terms of sales, the quality of service has been excellent. Since launch, both areas have consistently delivered against the Sainsbury's standards, consistently exceeding the Sainsbury's quality and brand standards for telephone calls and written correspondence."

Liz Aziz Service Manager, Insurances, Sainsbury's Bank

4. ICT, Health & Business Services

	2010 £m	2009 £m
Turnover	**659.3**	507.4
Underlying operating profit	**88.6**	58.4
Underlying operating margin	**13.4%**	11.5%
Capex	**11.4**	9.7

Comprised our ICT business, health business, our Service Birmingham partnership, business travel administration, conferences and consulting businesses.

2010 performance

Capita Health Services: A combination of contract wins and key acquisitions during the year has allowed us to increase and strengthen our presence in the health market. Key achievements include:

- NHS Choices has progressed well and various new online tools introduced offering users greater knowledge and control of their health. During the year there were 47 million visits to the Health A-Z section and the website has been certified by The Information Standard as a producer of reliable health and social care information. NHS choices was a winner at the National eWellbeing Awards 2010 for its digital inclusion work
- NHS BSA contract to administer the processing and payment of circa 40 million dental claims and provide a managed IT service has commenced well and service levels have been maintained
- Premier Medical Group, a leading medical assessments and legal reporting business, and FirstAssist Services, a provider of telephone advice and assistance services, which were acquired in the year, have added new capabilities and management to our wellbeing and health business and allow us to offer more services to the health and workforce management market
- The Information Standard, which offers certification for health and social care information providers, has made good progress and over 50 members and 90 information providers have signed up to the scheme.

IT Services: We have continued to focus on extending our capabilities through selective acquisitions and organic growth:

- while continuing to support Capita businesses and their clients, our IT services business has additionally successfully won IT Outsourcing (ITO) contracts from external clients across many of our key markets – including contracts with West Sussex County Council to provide a high quality, flexible and sustainable IT service and various outsourcing contracts to support establishments within the education sector. We were also named 'Scottish Partner of the Year' by Cisco for the 2nd consecutive year and awarded the 'Cisco Channel Customer Service Satisfaction Excellence Award' which is judged by customers.
- our acquisition of SunGard Public Sector Ltd, a supplier of ICT, radio network services and communication systems to the emergency services and to central and local government, allows us to enter into a new market sector.

Service Birmingham: Our partnership goes from strength to strength as we continue to deliver core ICT services and support Birmingham City Council's business transformation programme, delivering over 90 projects to the Council in 2010. In our 2010 customer satisfaction survey, 95% of customers were satisfied with our support. New developments include:

- introduction of data encryption to over 18,500 computers further strengthening data security and Voice over IP implemented across the Council driving out further efficiencies.
- assumed total responsibility for the delivery of the Council's contact centre services. We recruited and trained 176 new agents to meet the demands of more than 2 million customer contacts per year.
- developed and implemented SAP HR to better manage employee and manager self service and expanded payroll services to around 35,000 employees.

See case study on pages 40 and 41.

Business Travel & Conferences: The business has traded solidly in market conditions that continue to be challenging. We have now centred our operation in Derby, providing an efficient one-stop-shop for our clients, and we have secured a significant number of new clients; our corporate rail travel business in particular has grown strongly. Our conferences business delivered over 200 conferences in highly diversified fields. Our acquisition of BSI Holdings Limited (BSI) more than doubles the size of our operations in the business travel market and adds significant new accommodation and meetings management capabilities.

Consulting: Working across both public and private sectors the business has had a successful year winning new business with clients including the Department of Work and Pensions, Newcastle University, StartHere, Canterbury Christ Church University, and REED. We have strengthened our management team to focus on further growth in current and new sectors.

2011 priorities

- Continue to deliver high quality services to Birmingham City Council and sell Service Birmingham's services to wider West Midlands organisations, focusing on local authorities. Successfully deliver revenues service on behalf of the Council from April 2011
- Continue our growth in the health market both organically and through acquisition and identify cross selling opportunities to Capita's existing clients
- Make further improvements to our travel and conference services to enhance our product offer, set the standard for service delivery in the UK and extend market reach. Focus on smooth integration of BSI Holdings into the business
- Deepen and expand our consulting client relationships. Continue to strengthen capabilities and knowledge within senior teams to implement strategy for growth
- Enhance capabilities and increase market reach through selective acquisitions.

"CHKS is helping to support our clinical governance work very effectively. What makes them different is the extremely good access to and interaction with the dedicated CHKS consultant. It is this structure that leads to very effective communication between us and this plays an important part in helping meet our objectives. It is an extremely valuable addition to the excellent CHKS clinical benchmarking system."

Kevin Clarkson Chief Operating Officer/ Deputy Chief Executive, North Cumbria University Hospitals NHS Trust

CHKS was acquired by Capita in 2009 and is part of Capita Health Services

5. Professional Services

	2010 £m	2009 £m
Turnover	**358.6**	358.7
Underlying operating profit	**79.7**	69.4
Underlying operating margin	**22.2%**	19.3%
Capex	**5.0**	4.4

Comprised our operations focused on supporting local authorities, education establishments and children's services, through strategic transformation partnerships, outsourced administration services, strategic advice and interim support, ICT and software solutions and support.

The local government, children's services and education markets are constantly facing change and there is increased pressure to join up services and increase the effectiveness of administration while achieving efficiencies. We therefore continuously seek to deliver innovative but practical service solutions that leverage our expertise and scale to better service our clients and add value.

2010 performance

Local Government Strategic Partnerships: We have continued to deliver improved services, process and cost efficiencies, and ICT solutions across our major local authority partnerships in Sheffield, Southampton, Harrow and Swindon. Developments have included:

- achieving Customer Service Accreditation for the Sheffield City Council revenues and benefits service and improved awareness of benefits eligibility
- establishing our new regional business centre in a prime city centre site in Southampton
- our new robust IT platform in Harrow Council has enabled us to drive through improvements for both the Council and its citizens. See case study on pages 30 and 31.
- winning Best Outsourced Partnership at the South West Contact Centre Awards 2010 for our partnership with Swindon Borough Council.

Local Government Services: Performed well and continued to support and help grow our client relationships. We collected in excess of £2.3bn business rates and administered council tax on behalf of 17 local authorities.

Secured a 10 year contract with Charnwood BC and a 5 year contract with Cherwell BC to deliver revenues and benefits services. Additionally, secured a 5 year extension of our revenues contract with LB Brent.

Strategic Children's Services: The DfES National Strategies programme comes to an end in March this year. We have formed a new service, *edsight*, to provide vital support to schools, early years providers and local authorities as they seek to maintain and improve standards in the new education landscape. *edsight* draws on our extensive track record in supporting quality teaching and learning combined with our local service delivery expertise.

Software Services:

- Revenues and benefits: Maintained our leading position and secured new contracts with authorities including Blackpool & Fylde, City of London, Greenwich, Rochdale and South Staffordshire.
- Housing management: We won further contracts to supply our housing management software, OPENHousing, and secured 5 Support contracts providing personalised instant access to housing and support services.
- Payment management: 5 new councils selected our solutions. Used by over 200 organisations, our managed service processed 20 million credit/debit card payments
- Further and Higher Education: Strengthened our market penetration working with around 170 FE colleges.

Children's Services: SIMS was selected by Norfolk County Council for its primary and secondary schools and we are working with other primary schools to become early adopters of our enhanced software suite. Reflecting the growing number of partnerships, we are working with the North Wales Consortium – 6 local authorities – to provide **One**, our local authority solution.

Financial Software: Release of Synaptic Comparator; a solution for financial advisers to compare financial product platforms, the first module in our new online suite of integrated services for advisers underpinned by a new IT architecture

Total Document Solutions: Released new version of our electronic document management system, Swordfish 10, offering enhanced functionality, a new user interface and web services. Over 3,500 business users are now performing daily tasks on Dolphin, our business process platform.

Communications: Continued investment in equipment and industry specialists allowing us to launch products, such as OneM@il, which reduces the costs of printing documents in an office environment.

Debt management services: We are the largest provider of corporate debt services to local government. Our acquisition of Ross & Roberts complements our operations.

Assurance and Testing: Our software testing business has grown by an average of 42% over the last 5 years. A large part of this growth has been generated by the development of our dedicated offshore centre where we are able to service UK clients as well as organisations operating in India.

2011 priorities

- Continue to support our local government partnerships with service and IT transformations, enhancing services and identifying opportunities for further budget savings
- Continue to support current client base for software services in local government, education and housing and develop our position in the health market, providing leading payment management solutions
- Launch our new education service, *edsight*, to schools, local authorities and early years providers
- Increase the reach of our SIMS and **One** products to emerging sectors such as academies
- Upgrade clients to Swordfish 10 and explore opportunities for document solutions in insurance, HR and health
- Continue expansion of our Communications offer and work with clients to deliver cost efficiencies through process automation
- Focus both on external sales and opportunities to deliver value to other Capita businesses and contracts.

"Our revenues and benefits partnership proves that it is possible to do things at a lower cost while improving performance, with in excess of £1m worth of savings achieved so far. The strength of our partnership with Capita has undoubtedly contributed to our success. Customer service levels have increased and this, together with the cost savings achieved by sharing resources and software, has certainly benefited our citizens."

Stuart Dawson Revenues & Benefits Manager, WestWey Partnership*, Dorset

* Comprises Purbeck District Council, West Dorset District Council and Weymouth & Portland Borough Council

Governance

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

Board members

Following on from the changes made to the Board at the end of 2009, the Board has continued to review and shape its composition during 2010. Martin Bolland was appointed Chairman from 1 January 2010 and Paddy Doyle moved to become a Non-Executive Director from 1 March 2010. In May we appointed Nigel Wilson as Senior Independent Director and in June appointed Paul Bowtell as an independent Non-Executive Director and Chairman of our Audit Committee. Bill Grimsey stood down in July 2010 as a Non-Executive Director. On 10 January 2011, we also announced the appointments of Vic Gysin and Andy Parker to the Board as Joint Chief Operating Officers. Simon Pilling stood down as Chief Operating Officer the same day. We believe we have a talented and substantial team in place to support our continued growth.


Martin Bolland


Paul Pindar


Gordon Hurst


Andy Parker


Vic Gysin


Maggi Bell


Nigel Wilson


Paddy Doyle


Martina King


Paul Bowtell

Martin Bolland

Non-Executive Chairman, Age 54

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

Committee memberships:
Nomination Committee (Chairman)

Paul Pindar

Chief Executive, Age 51

Joined Capita in 1987 from 3i, after advising Capita on its management buy-out. He became Chief Executive in 1999. A Chartered Accountant, Paul is responsible for managing and developing Capita's business to achieve the Company's strategic objectives, and has overall responsibility for our charitable approach. Paul is also Chair of the Great Ormond Street Hospital's Corporate Partnerships Board. He was also Senior Independent Director at Debenhams Plc until 30 April 2010.

Gordon Hurst

Group Finance Director, Age 49

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

Andy Parker

Joint Chief Operating Officer, Age 41

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

Vic Gysin

Joint Chief Operating Officer, Age 45

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

Maggi Bell

Business Development Director, Age 55

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

Nigel Wilson

Senior Independent Director, Age 54

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

Committee memberships:
Nomination Committee
Remuneration Committee
Audit Committee

Paddy Doyle

Non-Executive Director, Age 60

Joined Capita in 1992 and was appointed to the Board in 1994. As Group Operations Director he was responsible for the ongoing operational management of the Group's business units. From August 2006 to the end of July 2008 he was Joint Chief Operating Officer before moving to a part-time Executive position. He became a Non-Executive Director from 1 March 2010. Paddy has been instrumental to Capita's success and his insight and guidance continue to provide a valuable contribution to the Board.

Committee memberships:
Nomination Committee (from 1 March 2010)

Martina King

Non-Executive Director, Age 49

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

Committee memberships:
Remuneration Committee (Chair)
Audit Committee
Nomination Committee

Paul Bowtell

Non-Executive Director, Age 42

Joined the Board in June 2010. Paul was on the Board of Tui Travel PLC from June 2007 until December 2010 as Chief Financial Officer and was on the Board of First Choice Holidays PLC. He is a Chartered Accountant and has extensive experience across the UK retail sector. He brings significant financial and commercial knowledge to the Board. He is also a Non-Executive Director and Chairman of the Audit Committee at SThree PLC.

Committee memberships:
Audit Committee (Chairman)
Remuneration Committee
Nomination Committee

Simon Pilling

Served on the Board from August 2006 until January 2011 as Joint Chief Operating Officer and then sole Chief Operating Officer from August 2008. After 11 years service, he stepped down from the Board and left the Group in January 2011. We wish him well in his future career.

Corporate governance report

Chairman's report

I am pleased to present to you this report on the work of the Capita Board during 2010.

I joined the Board of Capita in 2008 and was appointed Chairman on 1 January 2010. I have always been impressed by the Board's commitment to the highest standard of corporate governance, and most importantly how this works within the structure of the whole organisation without being overly cumbersome.

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

Board activities in 2010

The Board has continued to have a busy year. In addition to our business as usual, we put out to tender and appointed a new external Auditor, KPMG Audit Plc, and the Group undertook 12 acquisitions and continued to review the strategy, risk and oversight of the performance of the Group.

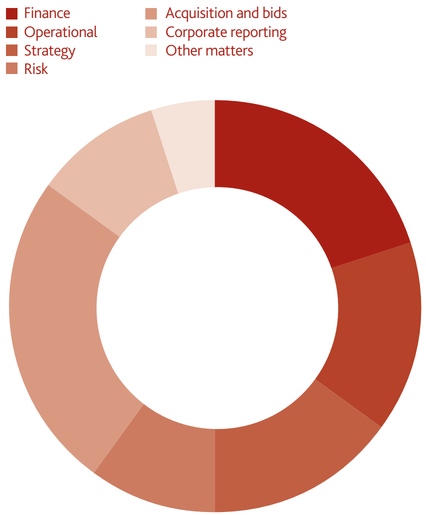
The tasks brought to the Board and committee meetings are appropriate and balanced and work is delegated accordingly. The meetings are structured in line with the financial calendar of the Company and this ensures that appropriate focus can be given and the right time allocated by planning the agendas accordingly.

In order that the Board can ensure that the strategic direction and growth of the Group can continue successfully and has the appropriate risk oversight, meetings are held between the Director, Group Risk and Business Assurance and the Chairman of the Audit Committee throughout the year as well as meetings on a business as usual basis. Risks are identified in a number of ways and are prioritised and delegated in accordance with the risk ratings provided.

As part of our internal controls our Risk Committee meets 4 times a year to review in detail the risks for the Group.

Approximate allocation of agenda time in 2010

During the year the Board has discussed many things including: strategy, acquisitions, finance, corporate reporting, service and risk and business assurance. This is shown in the diagram below.



Finance	20%
Operational	15%
Strategy	15%
Risk	10%
Acquisitions and bids	25%
Corporate reporting	10%
Other matters	5%

Strategy

A specific session to review the Group's strategy is planned each year, but strategy is also a standing item at each Board meeting. The diverse nature of the business means that we must continue to be adaptable to the opportunities and challenges facing ourselves, our clients and other stakeholders. Risk is considered side by side with the strategy and also within our operational reporting.

Board members reporting

All Executive Directors prepare and present a report at each Board meeting. These include the key issues (including risk and opportunity), operational and financial performance and bid and acquisition activity. These reports are then complemented with verbal updates at the meeting. This allows the Directors to focus on specific issues and also for the other Directors to debate and challenge as required. See management and governance structure on page 33.

Financial and corporate reporting

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

Acquisitions and major bids

Maggi Bell, Business Development Director, presents a report at each Board meeting which covers the current major bid strategy and constituents of the bid pipeline (bids over £10m in value where we are shortlisted to 4 or fewer) and prospects which are sitting just outside of the bid pipeline. As many of these potential contracts are of significant size and duration, these opportunities can make a significant impact on the shape and resource requirements of the Group as it grows.

Paul Pindar reports on the acquisition strategy and current acquisition activity in addition to his CEO report. Again these acquisitions have an impact on the shape and resource requirements of the Group.

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

Board evaluation in 2010

During the year we also undertook a full Board evaluation. Given the guidance under the UK Corporate Governance Code (June 2010) that this should be undertaken by a third party we considered this closely. As we have a business that provides this service to its clients, we felt that this would best meet our requirements as a Board. The responsibility for undertaking and managing the Board evaluation was delegated to the Deputy Company Secretary reporting to me and she managed this process using Capita Company Secretarial Services, a business of Capita Registrars. The evaluation was questionnaire based as I had recently held one to one meetings with all Board members as part of my annual review. The Board evaluation report was unedited and was presented at the October Board meeting. Further detail on this is shown on page 68.

Risk and business assurance

The Director, Group Risk and Business Assurance reports to the Audit Committee and reports on the reviews and risk management activities across the Group. He has access to all members of the Board and holds regular meetings with the Executive Directors and meetings with the Audit Committee Chairman and myself at least quarterly.

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

Martin Bolland
Non-Executive Chairman

Compliance with the Financial Reporting Council's Combined Code on Corporate Governance June 2008

The Capita Group Plc and its subsidiaries (the Group) continue to be committed to the principles of corporate governance contained in the Financial Reporting Council's ("FRC") Combined Code on Corporate Governance June 2008 (the Combined Code) for which the Board is accountable.

The Group has complied with the provisions of Section 1 of the Combined Code (2008) in all respects except as detailed below:

Code provision	Area of non-compliance	Position at 31 December 2010
A.3.2 Composition of the Board	During the period the Board had an imbalance of Executive Directors to Independent Non-Executive Directors. This is detailed further below.	The balance was 4 Executive Directors and 3 Independent Non-Executive Directors, a Non-Executive Chairman and a Non-Executive Director.
A.3.3 Senior Independent Director	During the period from 1 January to 12 May 2010 Martin Bolland assumed the responsibility of Chairman and Senior Independent Director.	Nigel Wilson was appointed on 12 May 2010 as Senior Independent Director. **Fully compliant**
B.2.1 Remuneration Committee	During the period from 1 January to 12 May 2010 the Remuneration Committee had 2 Independent Non-Executive Directors and the Chairman as its members.	The Remuneration Committee has 3 Independent Non-Executive Directors as its members. **Fully compliant**
C.3.1 Audit Committee	During the period from 1 January to 28 June 2010 the Audit Committee had 2 Independent Non-Executive Directors and the Chairman as its members.	The Audit Committee has 3 Independent Non-Executive Directors as its members. **Fully compliant**

As explained on page 67, Martin Bolland was appointed Chairman on 1 January, Paddy Doyle became a Non-Executive in March, Nigel Wilson was appointed on 12 May as Senior Independent Director and on 28 June Paul Bowtell was appointed Independent Non-Executive Director and Chairman of the Audit Committee. See Board biographies on pages 62 and 63.

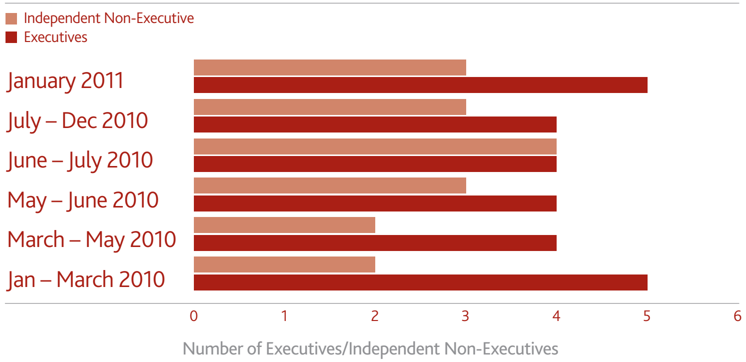
As at 31 December 2010 we had 4 Executive Directors, 3 independent Non-Executive Directors, a Non-Executive Director and a Non-Executive Chairman.

On 10 January 2011 we appointed Vic Gysin and Andy Parker as Joint Chief Operating Officers and Simon Pilling stood down from the Board on this date. The Board composition at the signing of these accounts is: 5 Executive Directors, 3 independent Non-Executive Directors, a Non-Executive Director and a Non-Executive Chairman.

The UK Corporate Governance Code (June 2010):

As explained above, the balance of independent Non-Executives to Executives is not equal. However, in accordance with the UK Corporate Governance Code (June 2010) it states that the Board needs to be appropriate in size and experience to manage the complexities it faces. We believe that our Board is appropriate for the scale and scope of the business. A broad range of experience is essential to ensure that there is continued discussion on the strategy and risks of the business, whilst also ensuring that the balance of skills is appropriate for the committees. Our Executives recognise all their responsibilities and do not solely represent the activities they have within the Group which also adds to open and constructive debate, as well as demonstrating the overall strength of the Board.

Executives v Independent Non-Executives



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

Board changes in the year

During the year the Board balance has fluctuated. Below is a table showing the changes made for clarity.

Composition of the Board.

	Executive Directors	Non-Executive Directors
Jan to 1 March 2010	Paul Pindar Gordon Hurst Simon Pilling Maggi Bell Paddy Doyle	Martin Bolland Martina King* Bill Grimsey*
1 March to May 2010	Paul Pindar Gordon Hurst Simon Pilling Maggi Bell	Martin Bolland Martina King* Bill Grimsey* Paddy Doyle
May to June 2010	Paul Pindar Gordon Hurst Simon Pilling Maggi Bell	Martin Bolland Nigel Wilson* Martina King* Bill Grimsey* Paddy Doyle
June to July 2010	Paul Pindar Gordon Hurst Simon Pilling Maggi Bell	Martin Bolland Nigel Wilson* Martina King* Paul Bowtell* Bill Grimsey* Paddy Doyle
July to Dec 2010	Paul Pindar Gordon Hurst Simon Pilling Maggi Bell	Martin Bolland Nigel Wilson* Paul Bowtell* Martina King* Paddy Doyle
January 2011	Paul Pindar Gordon Hurst Maggi Bell Vic Gysin Andy Parker	Martin Bolland Nigel Wilson* Paul Bowtell* Martina King* Paddy Doyle

* Independent in accordance with the Combined Code.

Board leadership

As described in previous years, the Board continues to support the need to segregate the responsibility of operating the Board and the management of the underlying business. Martin Bolland's role as Non-Executive Chairman and Paul Pindar's role as Chief Executive are separate.

Martin Bolland as Chairman and Nigel Wilson as Senior Independent Director are available to lead meetings of the Non-Executive Directors without the Executives being present and both Martin and Nigel are also available to meet with shareholders when requested.

Role of the Board

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

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

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

The Board determines the strategic objectives and policies of the Group to deliver 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 Group: 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 presentation by executive management and a disciplined process of review and challenge by the Board, clear decisions on the policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

Board independence

Non-Executive Directors are required to be independent in character and judgement. All relationships that may materially interfere with this judgement are disclosed as required under the conflicts of interest policy and there are none at this time. The Board has determined that all the Non-Executive Directors, except Paddy Doyle, who served during the year were independent and, before and upon appointment as Chairman, Martin Bolland met the criteria of independence as outlined in the Combined Code. The Board all support the value and continuity Paddy brings to the Board.

The Board is also satisfied that there are no compromises to the independence of the Non-Executives and also no conflicts of interest for any Director. This item is a standing agenda item.

Board Directors' inductions and training

We appointed 2 Non-Executive Directors in 2010 and 2 Executive Directors in January 2011. All Directors 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, beyond formal papers and presentations to the Board. All Directors have received an appropriate induction for their roles within Capita. These have included:

- Terms of Reference for all Committees and Matters Reserved for the Board
- Overviews of the business via Monthly Operating Board ("MOB") reports
- Approach to Risk Management.

Following Martin Bolland's appointment as Chairman he undertook to refresh his knowledge and received detailed training on his role as Chairman. This included information on the role as detailed within the Combined Code and also the requirements of the UK Corporate Governance Code (June 2010). Paul Bowtell has also received specific training for his role as Chairman of the Audit Committee, which included the FRC Guidance on Audit Committees which was published in December 2010.

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

During the year training was also given to the Executive Directors on the requirements of the various corporate governance codes, with specific training held on making market announcements. Ongoing training and briefings are also given to all Directors, including external courses as required.

Board evaluation

During September and October 2010 an evaluation of the Board, the Committees and the Directors of the Board was carried out by means of a focused questionnaire requiring direct comment from Directors, rather than just tick-box comments. To ensure independence and objectivity, the questionnaire was conceived, administered and reviewed on an entirely confidential basis by Capita Company Secretarial Services. The resultant report, analysing responses and drawing anonymous conclusions, was sent to each Director for consideration at the October Board meeting, and also reviewed in person with the Chairman.

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

It was noted that the Board was evolving its membership to cope with the increasingly broad requirements of the Capita portfolio of companies, and a number of recommendations were made with regard to the visibility of alignment of Risk and Strategy, as is now detailed in the 2010 UK Corporate Governance Code.

Company Secretary

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

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

The duties of the Company Secretary continue to grow with the increase in size and diversity of the area within the business and also legislatively.

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

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

Membership of the committees

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

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

(C) Chairman

Martin Bolland stood down from both the Remuneration Committee and the Audit Committee once appropriate replacements were recruited to the Board. Paddy Doyle is not independent and therefore is only appointed to the Nomination Committee, but he is available to the Audit and Remuneration Committees as required.

Nomination Committee

The Nomination Committee in 2010 comprised Martin Bolland (Committee Chairman), Nigel Wilson, Martina King, Paddy Doyle and Paul Bowtell. The Committee reports to the Board and its role is to seek suitably skilled and experienced candidates to be Directors and ensure plans are in place for orderly succession of appointments to the Board.

When considering the constitution of the Board, the Nomination Committee carries out a rigorous review, taking into account the need for a progressive refresh of the Board. Core competencies and attributes required to fill the roles are set out and independent external search consultants engaged, where appropriate, to identify potential candidates.

During the year the Nomination Committee has considered the succession planning of the Board, the appointments of new Directors and the retirement of Directors at the Annual General Meeting.

The Chairman of the Company never takes part in any discussions regarding the consideration of the appointment of a new chairman.

Audit Committee

The Audit Committee comprised of independent Non-Executive Directors throughout 2010. Martin Bolland was independent before and on appointment as Chairman in January 2010 and continued as Chairman of the Audit Committee until Paul Bowtell's appointment in June 2010. Both Martin and Paul have significant recent and relevant financial experience, including both being qualified Chartered Accountants. The other members of the Audit Committee are Martina King and Nigel Wilson. Audit Committee meetings are by invitation and generally attended by: the Non-Executive Chairman; Chief Executive; Executive Directors; Director, Group Compliance; Director, Group Risk and Business Assurance and by representatives of the external Auditors.

The Committee met 4 times during the year. Meetings are planned around the financial calendar for the Company and the meeting held in May is specifically to focus on the risk, internal control and compliance agendas.

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

During the year the Committee undertook the following activities:

- February: At the meeting to review the 2010 Annual Report and Accounts, the Committee considered the level of non-audit services being provided by the Group's Auditors in order to satisfy itself that the objectivity and independence of the Auditors were safeguarded
- February: Reviewed and approved the Representation Letter required by the Auditors
- February: Met with the Auditors independently of the Executive Directors and also separately met with the Director, Group Risk and Business Assurance
- May and ongoing: Monitored the internal controls that are operated by management to ensure the integrity of information reported to shareholders
- May: Agreed to tender the audit services for the Group
- November: In line with its responsibilities, the Committee reviewed the annual business assurance programme and ensured that the Group Risk and Business Assurance function was adequately sponsored and resourced. The Group Risk and Business Assurance business plan was presented to the Committee in November 2010 and approved
- November: A review of the terms of reference was undertaken and this ensured that these remained in line with the guidance given by the Financial Reporting Council and the Combined Code. Small changes were proposed to the terms of reference and these were approved by the Committee in November 2010. The terms of reference include the approval of the appointment of the Director, Group Risk and Business Assurance
- Ongoing: Reviewed a wide range of financial reporting and related matters during the year, including the half year and annual accounts prior to their submission to the Board. The Committee focused in particular on critical accounting policies and practices adopted by the Group and any significant areas of judgement that materially impact on reported results.

The Committee is also responsible for the policies on whistleblowing and the provision of the non-audit services by the external Auditors. Both policies are published on the Company's intranet.

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

The Committee met with the Group Finance Director to discuss the appointment of the Auditors (KPMG Audit Plc) and their performance since their appointment in August 2010. This discussion also included the scope of the audit that was required for the year ending 31 December 2010. This process meant the Committee could discuss in detail the transition to the new Auditors and recommend the appointment of the Auditors to the Board, which it did. Therefore, KPMG Audit Plc will be proposed as Auditors of the Company at the forthcoming Annual General Meeting.

The lead audit partner is rotated at least on a 5-yearly basis. Details of audit and non-audit fees are given in note 8 on page 105.

Auditors

During the year, the Board felt it was time to review the audit services required to support Capita as Ernst & Young LLP had been the Group's Auditors since Capita's flotation in 1984. In agreement with the Audit Committee, the Board decided that it was appropriate to put the Capita audit to competitive tender and KPMG Audit Plc was successful in this process.

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

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

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

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.

Policy on Auditor independence

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

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors` remuneration report on pages 79 to 90.

Board and Committee members, frequency of meetings and attendance

During 2010 the Board met 9 times, excluding ad hoc meetings, solely to deal with procedural matters. The Nomination Committee and the Remuneration Committee met 2 and 3 times during the year, respectively. The Audit Committee met 4 times during the year. Attendance is recorded in the table below:

	Board meetings	Nomination Committee meetings	Remuneration Committee meetings	Audit Committee meetings
Scheduled meetings	9	2	3	4
Martin Bolland	9	2	2	3
Paul Pindar	9	–	–	–
Gordon Hurst	9	–	–	–
Simon Pilling	9	–	–	–
Maggi Bell	9	–	–	–
Nigel Wilson*	6	–	1	2
Paul Bowtell*	4	–	–	1
Paddy Doyle	9	2	–	–
Martina King	8	2	3	4
Bill Grimsey*	4	2	3	3

* Nigel Wilson, Paul Bowtell were appointed in May and June respectively and Bill Grimsey stood down as a Director in July.

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 non-attendance at Board meetings or meetings of the Audit, Remuneration or Nomination Committees was due to illness and/or absence previously agreed with the Chairman of the Board, the Chief Executive or the Chairman of the relevant committee.

Committees' terms of reference

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

Terms of reference	Nomination Committee	Audit Committee	Remuneration Committee
Brief description of responsibilities	Reviews composition of Board. Recommends appointment of new Directors. Considers succession plans for Chairman and Executive positions. Monitors corporate governance issues.	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. Oversees the relationship with our external auditors. Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.	Sets the policy for Executive Directors' and senior executives' remuneration. Approves individual remuneration awards. Agrees changes to senior executive incentive plans.

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 any issues of concern, to obtain feedback and to consider Corporate Governance issues. All shareholders are encouraged to attend the Annual General Meeting and information for shareholders is available on the Company website – www.capita.co.uk/investorcentre. All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The Chairman is personally available to the significant shareholders in the Group.

During the year Martina King, Chairman of the Remuneration Committee met with several institutional investors to discuss how the shareholders would prefer to see the remuneration structured given the current strategy of providing a low basic pay and the linkage of basic pay to long term incentives.

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 investor centre section of the Group's website at www.capita.co.uk/investorcentre. A telephone helpline, 0871 664 0300, provides a contact point directly to the Group's registrars.

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

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

Internal control

The Board is responsible for the Group's system of internal control and for regularly reviewing its effectiveness. Procedures have been designed for, inter alia, the safeguarding of assets against unauthorised use or disposition, maintaining proper accounting records and the reliability of financial information used within the business or for publication. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud. There is an ongoing process of identifying, evaluating and managing the key risks faced by the Group, which has been in place throughout the year under review and up to the date of approval of the 2010 Annual Report and Accounts. This process is regularly reviewed by the Board. The Group's key internal control procedures include the following:

- The Board has responsibility to set, communicate and monitor the application of policies, procedures and standards in areas including operations, finance, legal, commercial and regulatory compliance, human resources and health and safety, information security and property management and corporate social responsibility and the environment and these policies are cascaded to the businesses via the Monthly Operating Board (MOB) review process and additional internal communication channels
- Authority to operate the individual businesses comprising the Divisions that make up the Group is delegated to their respective Managing Directors, within limits set by the Group, including the recruitment of the underlying management teams. The Board establishes key operations, functional and financial reporting standards for application across the whole Group and this is cascaded through the MOB review process. These are supplemented by operational standards set by local management teams, as required for the type of business and geographical location of each subsidiary and business unit
- Comprehensive annual financial plans are prepared at the individual business unit level and summarised at a Divisional and Group level. Financial plans are reviewed and approved by the Board following challenge within the MOB review process. Capital expenditure is subject to rigorous budgetary control beyond specified levels and detailed written proposals have to be submitted to the Board. Expenditure on acquisitions is the subject of appropriate consideration, review and approval by the Board

- Results are monitored routinely by means of comprehensive management accounts and actual progress against plan is challenged directly by Executive Directors of the Board on a Group-wide basis and at the business unit level each month. The Non-Executive Directors challenge the Executive Directors at each Board meeting
- A framework is in place to identify, assess and mitigate the major business risks, including credit, liquidity, operations, reputation, information security, regulatory and fraud. The framework also includes specific provision for risk-based due diligence in respect of business acquisitions and new customer contracts. Exposure to business risk is monitored as an integral part of the MOB review process and by the Audit Committee
- The Group risk framework is supplemented in certain of the Group's businesses, including all financial services related business streams, by a number of formally constituted local boards, which in turn are underpinned by dedicated risk committees,. These committees provide an appropriate means to routinely monitor the risk profile for these businesses, including regulatory risks, and for proposed mitigating actions to be challenged and tracked
- The Group Risk and Business Assurance function reports to the Group Finance Director and independently to the Audit Committee. In addition to independently facilitating the Group's risk management framework, it delivers a risk-based internal audit programme, to provide assurance on the effectiveness of the internal control structures operating across the business. The annual audit programme is focused on areas of greatest risk to the Group, as determined by the Group risk framework, and an independent view of those risks is taken by the Group Risk and Business Assurance function
- In addition, regulatory risks and compliance matters are overseen by the Group Compliance Director reporting through the Group Finance Director and independently to the Audit Committee. Dedicated compliance teams within the relevant businesses independently monitor regulatory compliance by way of risk-based work programmes and support operations in identifying and mitigating regulatory risks as an integral part of the Group risk framework
- Both the Group Compliance function and Group Risk and Business Assurance function routinely apprise the Group's senior management and the Audit Committee of their work programmes and findings.

The Board keeps under review the effectiveness of this system of internal control. The key mechanisms used by the Board to achieve this include regular MOB review reports, periodic updates from the Audit Committee based on its review of risk management, business assurance and compliance reports by the relevant Group functions; discussions with and reports from the external auditors and other advisers.

Through the above mechanisms, the Board and the Audit Committee have performed a Group-wide review of the effectiveness of the internal control system, including financial and operational controls and risk management in accordance with the Combined Code for the period from 1 January 2010 to the date of approval of this Annual Report and Accounts. The Board and the Audit Committee is satisfied with the process of monitoring the effectiveness of internal controls and complies with the Internal Control Guidance for Directors in the Combined Code issued by the Institute of Chartered Accountants in England and Wales and in the revised Turnbull Guidance (2005).

The implications of the Arch cru situation, which arose in 2009, are still being evaluated as explained in note 25 on page 117. Subject to this evaluation, no significant failings or weaknesses have been identified in the Group-wide review. Notwithstanding this, the controls within Capita Financial Managers business have been reviewed in detail and controls have been enhanced where appropriate.

Risk management and governance is also referred to on pages 33 and 38 to 39.

Other statutory and regulatory information

Business Review and principal activities

Business Review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2010 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'Business Review'). The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the Business Review can be found in pages 1 to 60.

Events after the Balance Sheet date

On 10 January 2011 the Company announced the appointments to the Group Board of Vic Gysin and Andy Parker as Joint Chief Operating Officers and the stepping down from the Board of Simon Pilling.

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 3 years in accordance with the combined code and the Company's Articles of Association.

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 7 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.

All Directors will retire and will offer themselves for re-election at the Annual General Meeting in May, in accordance with the UK Corporate Governance Code (June 2010) provision B.7.1.

Social and environmental responsibility

Details of how the Group manages its social and environmental responsibilities can be found on pages 42 to 51 and at www.capita.co.uk/corporate-responsibility.

Group activities

The Group is the leading UK provider of business process outsourcing solutions and professional support services to organisations across the public and private sectors. The Group's 9 chosen markets are: in the public sector – central government, local government, education, health and transport, and in the private sector – life and pensions, insurance, financial services and other corporates.

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

During the period under review, the Group's principal activities were managed through 5 operating divisions comprising; Insurance & Investor Services; ICT, Health & Business Services; Life & Pensions Services; Professional Services and Integrated Services. Group support services report direct to Group Executive Directors.

A review of the development of the Group and its business activities during the year is contained in the Business Review on pages 1 to 60. Our divisional operations and financial performance are detailed on pages 54 to 60.

In January 2011, the Board decided to reorganise the Group's divisions to reflect the growth of the Group and provider greater transparency. From January 2011, the Group's principal activities are managed through 9 operating divisions. Additionally a Divisional Board was created with representation for each of the head of Group acquisitions, head of strategic sales development and 2 Divisional Finance Directors, shown on page 33.

Profits and dividends

The Group underlying profit before taxation amounted to £364.2m (2009: £325.1m). The Directors recommend a final dividend of 13.4p share (2009: 11.2p per share) to be paid on 23 May 2011 to ordinary shareholders on the Register on 13 April 2011. This gives a total dividend for the year of 20.0p per share (2009: 16.8 per share).

The Employee Benefit Trust has waived its right to receive a dividend on the shares being held within the Trust.

Directors

The Directors of the Company currently in office are listed on pages 62 and 63. All the current Directors will be offering themselves for re-election at the forthcoming Annual General Meeting in May 2011. No Director has a service contract exceeding 1 year.

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 the Group. Procedures were implemented for evaluating and managing conflicts that have been identified in a way that ensures that decisions are not compromised by a conflicted director. In addition, the Company's Articles of Association give the Board the power to authorise matters that give rise to actual or potential conflicts. The Board reports annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed. A policy for ongoing identification and disclosure of conflicts is in place and is kept under regular review.

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

Voting rights and share capital

On 18 February 2011 the Company had received notifications that the following were interested in accordance with DTR5:

Shareholder	Number of shares	% of Voting Rights as at 18 February 2011	Number of shares direct	Number of shares indirect
Baillie Gifford & Company Limited	20,484,521	3.34	20,484,521	
BlackRock Inc	32,380,092*	5.28	32,380,092*	
Capital Research and Management Company	40,272,399	6.57	40,272,399	
FMR Corp & Fidelity International	23,362,646	3.81	23,362,646	
Legal & General	25,114,613	4.10	21,505,395	3,609,218
Invesco Limited	112,025,700	18.28	112,025,700	

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

At the date of this report, 627,477,695 ordinary shares of $2^{1}/_{15}$p each have been issued and are fully paid up and are quoted on the London Stock Exchange. During the year ended 31 December 2010, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 2,893,357 new ordinary shares. No new shares have been allotted under these schemes since the end of the financial year to the date of this report. 1.13% of the issued share capital is held within an Employee Benefit Trust for the use of satisfying employee share options.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in May 2010. During the year the Company acquired 15,403,930 ordinary shares (2009: nil) ordinary shares. All the shares purchased during the year were placed in treasury. No shares have been cancelled. At 18 February 2011 14,737,771 shares are being held in treasury.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 1 to 60. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 34 to 37. In addition note 26 to the financial statements on page 118 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to employees. Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be retrained for other positions in the Group.

Employee involvement

The Group 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 courses and an annual management development programme. Capita Academy and Capita Manager Academy were launched at the end of 2009 to provide a more comprehensive approach to key skills training and personal development.

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 a regular email communication reviewing the performance of the Group from the perspective of the 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.

The Capita Sharesave Scheme, an employee Save As You Earn Scheme, and the Capita Share Ownership Plan, a share incentive plan, are both firmly established and are designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group. Approximately 17% of the Group's eligible employees have share options or own Capita shares. In keeping with its belief that employees are the Group's most valuable asset, the Group operates employee awards schemes. These celebrate the core values that embody the organisation and reward employees for service excellence, effective teamwork, service to the community and innovation.

Payment of suppliers

The Company aims to pay suppliers in accordance with the suppliers` contract terms. In 2010 the Company had an average of 41 days purchases (2009: 40 days` purchases) outstanding in trade creditors.

Charitable and political donations

During the year charitable donations amounted to £0.7m (2009: £0.5m). No political contributions were made. Further details of the Group's charitable donations and work within the community can be found on page 51 and at www.capita.co.uk/corporate-responsibility.

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, unsecured loan notes, finance lease 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 debts is not significant.

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

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

Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contain an indemnity in favour of the Directors of the Company which indemnifies them in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2011 Annual General Meeting from 15 minutes before the meeting until it ends.

Powers of Directors

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

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

Change of control

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

The Group has a number of borrowing facilities provided by various banks and other financial institutions. The Group'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 the Group 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 the Group does not obtain an investment grade credit rating.

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

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

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

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

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

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

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

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

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

Details of the principal risk categories can be found on page 39.

Rights and restrictions attaching to shares

Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in the payment 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. This will be a change from previous years, but the Company feels that this is in line with best practice. 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 4 transferees or in respect of more than 1 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 excepted from the requirement) under the Uncertificated Securities Regulations to register the transfer.

Annual General Meeting

The 2011 Annual General Meeting (AGM) of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB, on 10 May 2011. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which was sent to shareholders with the 2010 Annual Report and Accounts and includes notes explaining the business to be transacted. In May 2010 shareholders granted authority for the Company to purchase up to 62,298,429 million ordinary shares which will expire at the conclusion of the 2011 AGM. 15,403,930 ordinary shares were purchased during 2010. A resolution to renew this authority will be put to shareholders at the 2011 Annual General Meeting.

Remuneration report

Chair's report

The following information is not subject to audit.

It is my pleasure to report on the activities of the Remuneration Committee for the period to 31 December 2010.

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

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

Given our responsibility to consider the employees when setting out Executive Directors' salaries and that our strategy is to pay lower quartile salary with upper quartile performance related plans, during the year a benchmarking exercise was undertaken to review this position. While our remuneration policy has served the Company well to date, the Remuneration Committee cannot ignore the advances in FTSE executive pay practices especially when Capita has delivered some of the best shareholder returns of any FTSE 100 company over the last 10 years. Therefore, during the year, the Remuneration Committee conducted a benchmarking review of Executive total remuneration. The review concluded that the remuneration of Capita Executives has fallen below the lower quartile compared to FTSE 31-100 companies. Therefore, having consulted in advance with a number of our large shareholders, the Remuneration Committee is intending to make the following changes to the remuneration package for 2011:

- Increase the salaries for the CEO, Group Finance Director, and Business Development Director by £5,000 each for 2011, which is an increase of 1.3% to 2.2%. The Remuneration Committee considered higher salary increases over time. However, the management team is keen to lead by example and demonstrate salary restraint throughout the organisation. In any event, it would require salary increases of c. 10% to 20% per annum for the next 3 years to reach a lower quartile salary position, which the Committee considers inappropriate in the current economic environment
- Increase the maximum bonus opportunity from 140% of salary to 170% of salary for the financial year ending December 2011 and then to 200% of salary for the financial year ending December 2012. As in previous years, the 2011 targets will be based on Profits Before Tax, and bonuses will vest on a sliding scale between a minimum acceptable level of performance and a stretching target.
- Increase the maximum match for future awards under the Deferred Annual Bonus Plan from 1.5 x to 2 x matching shares for each deferred share subject to shareholder approval at the 2011 AGM. The matching shares will be subject to EPS growth targets of between RPI +4% per annum and RPI +12% per annum over a 3 year performance period. The new targets are considered stretching given the squeeze on public sector finances, prevailing economic conditions, and growth is being measured from a high base point.
- The same EPS growth targets that are used for the DAB will be also be used for the 2011 awards granted under the Long Term Incentive Plan. In addition, there is also a secondary measure, whereby awards will only vest if Capita's share price has also increased over the performance period. The Remuneration Committee did consider the use of additional or alternative performance measures to EPS. However, the Committee concluded that this would only add complexity to the current package, and that other objectives would form part of the annual review of the Director. EPS is also widely understood within the organisation, is within management's control, and has been used effectively in long term incentives at Capita for a number of years.

The Remuneration Committee believes these changes will help bridge the competitive pay gap and retain Executives in a way that is aligned with shareholders' interests while being sensitive to the current economic environment.

Members of the Committee

The following Non-Executive Directors were members of the Committee during 2010:

January – May 2010	June – July 2010	July – December 2010
Martina King (C)	Martina King (C)	Martina King (C)
Martin Bolland	Nigel Wilson	Nigel Wilson
Bill Grimsey	Bill Grimsey	Paul Bowtell

(C) Chair

The Committee met 3 times during 2010 and the attendance of the Committee is shown in the attendance table on page 71.

Summary of remuneration and Share Awards in respect of 2010

Below is a summary of the remuneration for the Executive Directors awarded during 2010.

Executive Directors	Salary (£)	Cash bonus (£)	Deferred bonus (£)*	LTIP Shares	Pension (£)	Other benefits (£)
Paul Pindar	375,000	262,500	262,500	165,000	18,750	1,360
Gordon Hurst	275,000	192,500	192,500	120,000	13,750	17,260
Simon Pilling	285,000	399,000	–	120,000	13,250	15,381
Maggi Bell	225,000	157,500	157,500	120,000	–	15,384

*The Deferred bonus will be awarded as shares and will be matched on a 1.5 for each 1 awarded on grant. This is explained further on page 84.

The benefits are car allowance and private medical insurance.

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

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

Base salaries

In light of the continuing economic weakness, the Executive Directors wanted to keep their 2010 salaries at 2008 and 2009 levels. A small rise was awarded to some areas of the business, however this was not Group-wide and therefore it was agreed that no rise would be given to the Executive Directors. This decision was supported by the Committee. The Committee noted that all staff are paid in accordance with the market conditions and business requirements for their role. To compare our employees with the Executive Directors is very difficult and therefore a general review and consideration has been undertaken to ensure that all salaries within the Group are considered. The base salaries are currently below lower quartile when benchmarked against the FTSE 40 - 60 and also the FTSE 100.

Base salaries for 2011 will be increased by £5,000 per Executive. The increase of between 1.3% and 2.2% reflects the increases for our employees. Vic Gysin and Andy Parker's remuneration was set at appointment.

Key activities undertaken during 2010

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

- Approval of the 2009 Directors' remuneration report
- Review of share plan performance measures against the 2009 year end targets
- Review and approval of all awards made under the LTIP and DAB, taking into account the total value of awards made under these plans
- Review of Executive Directors' shareholdings and levels achieved
- Consideration of advisory bodies' and institutional investors' current guidelines on executive compensation
- Annual Review of all Executive Directors' and Chairman's base salaries and benefits
- Ratification of salary increases for Divisional Directors in line with Company policies
- Assessment of the risk environment surrounding the Company's current remuneration arrangements
- Set targets for 2010 cash bonuses and deferred bonus
- Review of targets under the DAB and the LTIP
- Review of terms of reference.

Service contracts

The service contracts for Executive Directors are for an indefinite period and provide for a 1 year notice period. They do not include provisions for predetermined compensation on termination that exceed 1 year's salary and benefits. There are no arrangements in place between the Company and its Directors that provide for compensation for loss of office following a takeover bid. All Directors are appointed for an indefinite period but are subject to re-election at the Annual General Meeting at least every 3 years.

Details of the contracts are set out below:

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

1 Stood down 10 January 2010.

Non-Executive Directors	Date of joining the Board
Martin Bolland	1 March 2008
Martina King	1 January 2005
Paddy Doyle[2]	1 March 2010
Paul Bowtell	28 June 2010
Nigel Wilson	12 May 2010

2 Moved to a letter of appointment from 1 March 2010 upon his appointment as a Non-Executive Director.

Key elements of Executive remuneration

Remuneration Framework

For Executive Directors this is summarised as follows

	Policy	Delivery	Year in review
Base Pay	Lower quartile pay	Monthly in cash Reviewed annually in December and effective January	Reviewed against: Salaries in similar companies and comparably-sized companies Economic climate, market conditions and Company performance The role and responsibility of the individual Director
Bonus plan	Upper quartile for performance	Paid in cash following the results	Cash of up to 70% of annual salary can be paid in cash Deferral of up to 70% of the bonus is placed in the DAB for a 3 year period
Deferred Annual Bonus	Upper quartile for performance	Bonus potential of 70% of base salary for maximum performance Compulsory deferred bonus earned into shares Shares vest in 3 years with no further performance conditions Share matching of 1.5 shares for each one deferred Matching Shares vest in 3 years following a performance condition of EPS	Overall packages in similar companies and comparably-sized companies Reviewing performance targets for future awards Reviewing matching shares for future awards
Long Term Incentive Plan	Upper quartile for performance	Award of nil cost options Vest in 3 years following a performance condition of EPS and share price performance	Role and responsibility of the individual Director Review of performance targets for future awards
Benefits	In line with all employees within the Group	Pension – up to 5% Details benefits Car Health All employee plans	

Annual bonus

For 2010, each Executive Director has been awarded 140% of base salary. The bonuses are awarded on the achievement of an annual target based on underlying profit before tax set at the beginning of the year by the Remuneration Committee and approved by the Board. An annual target and a stretch target was set by the Committee.

Full achievement of the stretch target was met. The bonus is split between 70% of salary payable in cash and the remaining 70% in deferred shares. The Deferred Annual Bonus Plan (DAB) also includes a matching award of up to 1.5 shares for each deferred share, dependent on the achievement of certain performance criteria over a 3 year period. Simon Pilling will be paid his entire 140% bonus in cash as part of his severance package.

Pay and benefits received by the Board

Executive remuneration

Salary

There were no salary increases awarded to the Executive Directors in 2010. An increase of £5,000 per annum for each Executive Director has been awarded for 2011. The salaries for the Executive Directors are:

Director	Salary for 2010	Salary for 2011
Paul Pindar	£375,000	£380,000
Gordon Hurst	£275,000	£280,000
Simon Pilling	£285,000	–
Maggi Bell	£225,000	£230,000
Andy Parker	–	£230,000
Vic Gysin	–	£230,000

Non-Executive fees

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

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

A review of Non-Executive Directors' fees was carried out during 2010 which indicated that these were no longer in line with the market. In accordance with remuneration policy these were increased. The Chairman's fees were reviewed as part of the appointment process and adjusted accordingly. No increase in fees is proposed for 2011 for the Non-Executive Directors.

Non-Executive	Fees at 31 December 2010
Martin Bolland	£200,000
Nigel Wilson	£70,000
Martina King	£60,000
Paul Bowtell	£60,000
Paddy Doyle	£60,000

Short term incentives

Annual bonus scheme

The annual bonus scheme is reviewed annually and designed to drive individual performance and profitability across the organisation. The cash bonus potential for 2010 for Executive Directors was 70% of salary. For the period to 31 December 2010 70% was paid. The performance target was set at a level of profit before tax with a stretch target to achieve the full potential. This was set using market expectations and forecasts submitted within the business planning process. For 2011 the Executive Directors will be able to defer up to 100% of their awarded bonus and receive Matching Shares under the Deferred Annual Bonus Scheme.

Share plans

Plan name	Plan background and objective	Plan operation	Performance period and criteria
Deferred Annual Bonus plan (DAB)	The DAB was approved and adopted at the Annual General Meeting on 28 April 2005 and new rules were adopted at the Annual General Meeting in May 2010. The DAB is comprised of Deferred Shares, which form part of the annual bonus scheme, and Matching Shares. The Committee believes that this plan focuses participants on delivering strong year on year performance, which in turn drives long term shareholder value creation. Executive and Divisional Directors are eligible to participate in the DAB. The DAB is split into 2 elements. The Deferred Award (which can be awarded as a gross deferred award or as a net restricted share award) is made as part of the bonus for the year ending 31 December 2010. This part is not subject to performance conditions. The second part is awarded as a matching award, which has performance conditions. This is awarded at a ratio of 1.5 shares for each gross share awarded under the deferred award. Although this is a fixed amount the calculation is based on a percentage of salary. In 2010 this was 70% of base salary which is the maximum that could be awarded at that time. In February 2010, 127,804 Deferred Shares were awarded to Executive Directors at a price of 712.5p being the market price determined at grant.	The value of the Deferred Shares is determined by the entitlement under the annual bonus scheme, half of the bonus entitlement is paid in cash and the remainder is deferred as determined by the Committee. The remainder is deferred on a gross basis into deferred shares or as a net restricted share award. The Deferred Shares are held for a period of 3 years from the date of award. They are only forfeited 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 are eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares vest after a 3 year holdings period to the extent to which performance criteria have been met. During the year an aggregate of 267,837 Matching Shares were awarded to Executive Directors as detailed on page 88 and subject to the following performance conditions. For the 2010 these performance conditions were changed from the previous year and these are shown with the proposed targets for 2011 in the next column. The Committee has decided that the performance conditions that will apply to the Matching Shares is earnings per share (EPS) growth against the UK Retail Price Index (RPI). The Committee continues to believe that the long term EPS growth is the most appropriate performance condition for the Company as it is a key indicator of shareholder value creation. The review of the EPS target for 2010 and 2011 was to ensure that the target continued to be no less challenging that the original conditions. The Committee continues to believe that these targets are very challenging given Capita's earnings growth over the last 5 years. There are no non-financial targets for this plan, however the annual appraisal process considers non-financial measures and awards consider the prior year performance as a whole.	**2009 and before** EPS growth of RPI + 6% per annum – 33% of the award vests EPS growth of RPI +16% per annum – 100% of the award vests Straight-line vesting occurs between these points **2010** EPS growth of RPI + 4% per annum – 33% of the award vests EPS growth of RPI +14% per annum – 100% of the award vests Straight-line vesting occurs between these points **2011** 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

Share plans

Plan name	Plan background and objective	Plan operation	Performance period and criteria
Long Term Incentive Plan (2008 LTIP)	At the Annual General Meeting in 2008 the Long Term Incentive Plan was approved by shareholders. In calculating the LTIP awards granted to Executive Directors, the Committee considered that a fixed number of shares was preferable than fixing awards as a percentage of salary. Under the plan rules the Committee can award up to 3 times salary or a maximum of 165,000 shares. Paul Pindar has been awarded the maximum of 165,000 shares in 2008, 2009 and 2010. On 4 March 2010, 525,000 shares were awarded to the Executive Directors as detailed in the table on pages 88 and 89.	The vesting of awards made in 2010 will depend on the share price growth and EPS 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. The proportion of awards that vest will be determined by the following criteria as shown. The Committee may vary the performance conditions if it considers that the original conditions are not appropriate and a fair measure of performance. Where the performance conditions are not met, the award will lapse. There will be no re-testing of performance. The Committee has considered the targets set for both Executive Directors and other participants of the scheme and feels that they are very challenging especially in the current market. Although there are no non-financial targets for this plan the annual appraisal process consider non-financial measures and awards consider the prior performance as a whole.	**2009 and before** EPS growth of RPI + 4% per annum – 20% of the award vests EPS growth of RPI +16% per annum – 100% of the award vests Straight-line vesting occurs between these points **2010** EPS growth of RPI + 4% per annum – 20% of the award vests EPS growth of RPI +14% per annum – 100% of the award vests Straight-line vesting occurs between these points **2011** 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
Long Term Indexed Share Appreciation Scheme (LTISAS)	The LTISAS was only open to the Executive Directors and Divisional Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards have or will be made under this plan. Paul Pindar remains the only Executive Director with outstanding options within this scheme.	The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was adjusted in line with the movement in the FTSE All Share Index from the date of grant to 25 November 2007. The adjusted exercise prices were 348p for the 2002 award and 474p for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index.	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.
Executive Share Option Scheme (ESOS)	The 1997 Executive Share Option Scheme (including both HMRC approved and unapproved elements) is a discretionary scheme for senior managers in which the Executive Directors no longer participate.	Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds growth in RPI by 8% over a 3 year period from the date of grant.	If the growth in the Company's EPS exceeds growth in RPI by 8% over a 3 year period from the date of grant.
Save as you Earn (SAYE)	The SAYE is open to all employees of the Company, under certain eligibility criteria, including Executive Directors. The SAYE was renewed for a further 10 years at the AGM in May 2010.	Under the plan employees can save up to £250 per month for a period of 3 years and purchase shares at the price set at the beginning of the savings period.	There are no performance criteria to be satisfied under this scheme
Capita Share Ownership Plan (CSOP)	The CSOP is open to all employees of the Company, under certain eligibility criteria.	Under the plan employees may invest up to £125 per month in the Company's shares and the Company matches these at a ratio of one matching share for every 10 participant shares.	There are no performance criteria to be satisfied under this scheme

Satisfaction of options

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

Dilution

All awards are made under plans that incorporate dilution limits as set out in the Guidelines for Share Incentive Schemes published by the Association of British Insurers. The current estimated dilution from existing awards including executive and all-employee share awards is approximately 7.2% of the Company's share capital as at 31 December 2010.

The following information is subject to audit.

Directors` remuneration

The remuneration of the Directors is made up as follows:

Directors	Salary and fees £	Benefits £	Performance-related Bonus £	Total 2010 £	Total 2009 £	Dividends equivalent for DAB £	Gain on exercise of options 2010 £	Gain on exercise of options 2009 £	Pension 2010 £	Pension 2009 £
Martin Bolland	200,000	–	–	200,000	42,500	–	–	–	–	–
Paul Pindar	375,000	1,360	525,000	901,360	770,010	13,819	479,565	833,033	18,750	18,750
Gordon Hurst	275,000	17,260	385,000	677,260	580,910	9,935	345,572	577,676	13,750	13,750
Simon Pilling	285,000	15,381	399,000	699,381	599,627	8,271	293,121	450,309	29,150	49,150
Maggi Bell	225,000	15,384	315,000	555,384	476,634	7,742	267,948	660,502	–	–
Paddy Doyle	64,167	1,720	28,000	93,887	254,422	24,174	380,843	660,817	1,000	13,200
Nigel Wilson	44,722	–	–	44,722	–	–	–	–	–	–
Martina King	51,250	–	–	51,250	42,500	–	–	–	–	–
Paul Bowtell	30,682	–	–	30,682	–	–	–	–	–	–
Bill Grimsey	24,792	–	–	24,792	42,500	–	–	–	–	–
Eric Walters	–	–	–	–	105,000	–	–	–	–	–

Directors' interests

Directors	31 December 2010 or date of appointment if later ordinary shares of $2^{1}/_{15}$ each	31 December 2009 or date of appointment if later ordinary shares of $2^{1}/_{15}$ each
Martin Bolland	25,000	12,500
Paul Pindar*	1,669,252	1,451,613
Gordon Hurst*	64,025	10,217
Simon Pilling*	32,383	–
Maggi Bell*	67,856	–
Paddy Doyle	27,176	27,077
Nigel Wilson	–	–
Martina King	717	717
Paul Bowtell	–	–
Bill Grimsey	–	12,209
Eric Walters	–	52,213

* Some held beneficially in trust

The Directors are required to hold part of their bonus as Deferred Share Awards. Recently the Directors exercised options over these awards and turned them into shares known as restricted stock under the plan rules. This meant that they chose to pay the tax and national insurance due prior to the tax rate change. The restricted shares are held in trust and have the same conditions as the Deferred Award. No change was made to the Matching Awards as there are performance conditions attached to these and this would have required an early vesting for these awards. There was no impact to the accounting treatment of these awards and no detriment to the Company in respect of changes made to the DAB. The amount held for them is shown as follows:

Executive Directors	Beneficially held restricted stock
Paul Pindar	67,639
Gordon Hurst	49,581
Simon Pilling	32,383
Maggi Bell	38,194

Directors` remuneration

	2010 £000s	2009 £000s
Basic salaries[1]	1,180	1,279
Benefits	51	58
Annual bonus[2]	1,652	1,344
Dividend equivalent for DAB	64	55
Pension contributions to the Group's defined contribution scheme	47	82
Pension contributions to external defined contribution pension schemes	16	13
Fees	395	233
Total	3,405	3,064

1 This includes 2 months' salary for Paddy Doyle of £20,000 for service as an Executive Director to 1 March 2010.

2 The sum disclosed above represents the total value of the performance-related bonus payable in respect of the year ended 31 December 2010. 50% will be paid in cash and the remainder will be settled through the issue of Deferred Shares as explained on page 84.

In addition, by way of salary sacrifice, the base salaries of Paddy Doyle and Simon Pilling were reduced by £1,200 and £20,000 (2009: £7,200 and £20,000) respectively and paid into separate defined contribution schemes.

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

Paul Pindar was released by the Company to serve as a Non-Executive Director of Debenhams Plc during 2010. He received £20,000 in fees from Debenhams Plc which he retained for that period. Paul stepped down from this appointment on 30 April 2010.

Simon Pilling

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

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

For the LTIP 2008, it was agreed that Simon would keep in full his award in 2008 and a pro rata amount for the 2009 and 2010 award. This is in line with a pro rata of service and notice period. These awards will vest following the full 3 year vesting period and are subject to the performance conditions being met.

Share plan awards

The Company utilises a number of different share plans to incentivise and align the interests of employees, including the Executive Directors, with that of shareholders. Details regarding the various share plan schemes can be found on pages 84 and 85. The table below sets out the Executive Directors' interests in these plans.

	Number of shares under award/ option at 1 January 2010 or date of appointment	Awarded in year	Number of Matching Shares awarded in year (DAB & CSOP Only)	Market price on award date (£)	Weighted average exercise price/ exercise price (£)	Number exercised	Market price on exercise date (£)	Number lapsed in 2010	Number of shares under award/ option at 31 December 2010[4]	Vested number of shares under option	Value of release/ exercise (£)	End of share plan performance period (or first exercise/ scheduled release date	Last exercise/ scheduled release date
Paul Pindar													
LTISAS 2004	600,000	–	–	3.51	4.740	–	–	–	600,000	600,000	–	25/11/2007	25/11/2012
LTIP 2008	165,000	–	–	6.83	–	–	–	–	165,000	–	–	07/05/2011	07/08/2011
LTIP 2009	165,000	–	–	6.84	–	–	–	–	165,000	–	–	20/03/2012	20/06/2012
LTIP 2010	–	165,000	–	7.215	–	–	–	–	165,000	–	–	04/03/2013	04/06/2013
DAB 2007	90,205	–	–	6.83	–	90,205	7.301	–	–	90,205	658,630	23/02/2010	23/05/2010
DAB 2008	117,051	–	–	6.56	–	37,881	7.301	–	79,170	37,881	276,587	03/03/2011	03/06/2011
DAB 2009	123,361	–	–	6.575	–	39,923	7.301	–	83,438	39,923	291,497	26/02/2012	26/05/2012
DAB 2010	–	21,736	55,263	7.16	–	–	–	–	76,999	–	–	26/02/2013	26/05/2013
Gordon Hurst													
LTIP 2008	120,000	–	–	6.83	–	–	–	–	120,000	–	–	07/05/2011	07/08/2011
LTIP 2009	120,000	–	–	6.84	–	–	–	–	120,000	–	–	20/03/2012	20/06/2012
LTIP 2010	–	120,000	–	7.215	–	–	–	–	120,000	–	–	04/03/2013	04/06/2013
DAB 2007	64,852	–	–	6.83	–	64,852	7.301	–	–	64,852	473,516	23/02/2010	23/05/2010
DAB 2008	85,725	–	–	6.56	–	27,743	7.301	–	57,982	27,743	202,565	03/03/2011	03/06/2011
DAB 2009	90,465	–	–	6.575	–	29,277	7.301	–	61,188	29,277	213,765	26/02/2012	26/05/2012
DAB 2010	–	15,940	40,525	7.16	–	–	–	–	56,465	–	–	26/02/2013	26/05/2013
CSOP[1]	36	227	20	–	–	–	–	–	283	–	–	–	–
Simon Pilling													
LTIP 2008	120,000	–	–	6.83	–	–	–	–	120,000	–	–	07/05/2011	07/08/2011
LTIP 2009	120,000	–	–	6.84	–	–	–	–	120,000	–	–	20/03/2012	20/06/2012
LTIP 2010	–	120,000	–	7.215	–	–	–	–	120,000	–	–	04/03/2013	04/06/2013
DAB 2007	53,987	–	–	6.83	–	53,987	7.301	–	–	53,987	394,185	23/02/2010	23/05/2010
DAB 2008	82,428	–	–	6.56	–	26,676	7.301	–	55,752	26,676	194,774	03/03/2011	03/06/2011
DAB 2009	87,175	–	–	6.575	–	28,212	7.301	–	58,963	28,212	205,989	26/02/2012	26/05/2012
DAB 2010	–	28,000	42,000	7.16	–	–	–	–	70,000	–	–	26/02/2013	26/05/2013
Maggi Bell													
LTIP 2008	30,000	–	–	6.83	–	–	–	–	30,000	–	–	07/05/2011	07/08/2011
LTIP 2009	80,000	–	–	6.84	–	–	–	–	80,000	–	–	20/03/2012	20/06/2012
LTIP 2010	–	120,000	–	7.215	–	–	–	–	120,000	–	–	04/03/2013	04/06/2013
DAB 2007	50,532	–	–	6.83	–	50,532	7.301	–	–	50,532	368,958	23/02/2010	23/05/2010
DAB 2008	64,293	–	–	6.56	–	20,807	7.301	–	43,486	20,807	151,922	03/03/2011	03/06/2011
DAB 2009	67,438	–	–	6.575	–	21,825	7.301	–	45,613	21,825	159,355	26/02/2012	26/05/2012
DAB 2010	–	13,042	33,157	7.16	–	–	–	–	46,199	–	–	26/02/2013	26/05/2013
ESOS 2008	4,467	–	–	6.83	6.715	–	–	–	4,467	–	–	07/05/2011	07/08/2011

	Number of shares under award/ option at 1 January 2010 or date of appointment	Awarded in year	Number of Matching Shares awarded in year (DAB & CSOP Only)	Market price on award date (£)	Weighted average exercise price/ exercise price (£)	Number exercised	Market price on exercise date (£)	Number lapsed in 2010	Number of shares under award/ option at 31 December 2010[4]	Vested number of shares under option	Value of release/ exercise (£)	End of share plan performance period (or first exercise/ scheduled release date	Last exercise/ scheduled release date
Andy Parker[3]													
LTIP 2008	40,000	–	–	6.83	–	–	–	–	40,000	–	–	07/05/2011	07/08/2011
LTIP 2009	40,000	–	–	6.84	–	–	–	–	40,000	–	–	20/03/2012	20/06/2012
LTIP 2010	40,000	–	–	7.215	–	–	–	–	40,000	–	–	04/03/2013	04/06/2013
DAB 2010	11,665	–	–	7.16	–	–	–	–	11,665	–	–	26/02/2013	26/05/2013
ESOS 2009	4,392	–	–	6.84	6.83	–	–	–	4,392	–	–	20/03/2012	20/06/2012
Vic Gysin[3]													
LTIP 2008	40,000	–	–	6.83	–	–	–	–	40,000	–	–	07/05/2011	07/08/2011
LTIP 2009	40,000	–	–	6.84	–	–	–	–	40,000	–	–	20/03/2012	20/06/2012
LTIP 2010	40,000	–	–	7.215	–	–	–	–	40,000	–	–	04/03/2013	04/06/2013
DAB 2009	20,500	–	–	6.575	–			–	20,500	–	–	26/02/2012	26/05/2012
DAB 2010	36,959	–	–	7.16	–	–	–	–	36,959	–	–	26/02/2013	26/05/2013
ESOS 2007	50,000	–	–	6.83	6.615	–	–	–	50,000	–	–	26/02/2010	26/02/2017
ESOS 2009	4,392	–	–	6.84	6.83	–	–	–	4,392	–	–	20/03/2012	20/06/2012
Paddy Doyle													
LTIP 2008	120,000	–	–	6.83	–	–	–	–	120,000	–	–	07/05/2011	07/08/2011
LTIP 2009	48,000	–	–	6.84	–	–	–	–	48,000	–	–	20/03/2012	20/06/2012
DAB 2007	71,632	–	–	6.83	–	71,632	7.301	–	–	71,632	523,020	23/02/2010	23/05/2010
DAB 2008	74,695	–	–	6.56	–	29,878	7.301	–	44,817	29,878	218,154	03/03/2011	03/06/2011
DAB 2009	79,847	–	–	6.575	–	31,939	7.301	–	47,908	31,939	233,202	26/02/2012	26/05/2012
CSOP[1]	2,884	94	5	–	–	–	–	–	2,983	–	–	–	–
SAYE[2]	1,289	–	–	7.33	7.33	–	–	–	1,289	–	–	01/11/2012	01/05/2013

1 There are no performance criteria to be satisfied under these schemes.

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

3 As at date of appointment on 10 January 2011.

4 Including Restricted Stock under the DAB awarded in 2010.

Pensions

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

Changes in Directors` interests

Between the end of the financial year and 19 February 2011, Gordon Hurst acquired 40 shares under the Capita Share Ownership Plan, increasing his beneficial interest in ordinary shares of the Company to 64,065.

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

Martina King
Chair, Remuneration Committee
23 February 2011

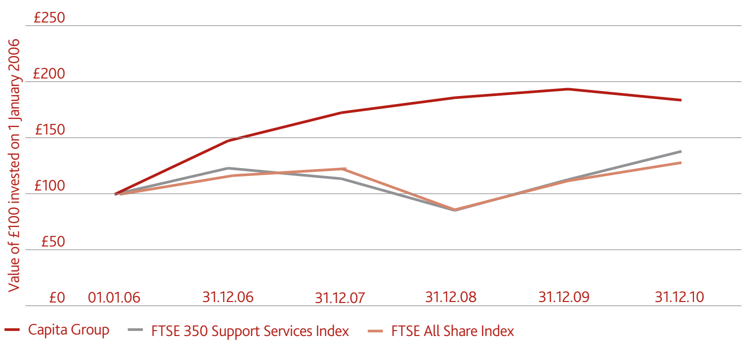
Martin Bolland
Non-Executive Chairman
23 February 2011

Other disclosures

Comparison of Total Shareholder Returns

The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All Share Index and the FTSE 350 Support Services Index over the 5 years starting 1 January 2006 assuming that all dividend income is reinvested. The Committee is of the opinion that this comparison provides a clear picture of the performance of the Group relative to both a wide range of companies in the United Kingdom and also a specific group of companies within the same sector.

Capita vs. FTSE All Share Index and FTSE 350 Support Services Index Value of investment of £100 on 1 January 2006



A £100 investment in Capita shares on 1 January 2006 would be worth £184 at 31 December 2010 compared to £128 for an investment in the FTSE All Share Index and £138 for an investment in the FTSE 350 Support Services Index.

Advisers to the Committee

During 2010 the Committee sought advice from PricewaterhouseCoopers (PwC), the remuneration advisers, as required. Paul Pindar was invited to provide further information to the Committee on the performance and proposed remuneration for the Executive Directors and other senior management.

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

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

Terms of reference

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

- Setting and reviewing performance targets
- Determining remuneration and benefits for Executive Directors and senior management
- Determining contractual terms for Executive Directors
- Granting of long term incentive plan options.

The Committee also considers the remuneration packages within the organisation when reviewing the Executive Directors` remuneration.

The terms of reference for the Committee are reviewed annually and updated as required. The terms of reference were recommended and approved by the Board. These are available at www.capita.co.uk/investors or copies can be requested from the Company Secretary.

Gordon Hurst
Company Secretary
23 February 2011

Accounts

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

Consolidated income statement

for the year ended 31 December 2010

	Notes	2010 Underlying £m	2010 Non-underlying £m	2010 Total £m	2009 Underlying £m	2009 Non-underlying £m	2009 Total £m
Continuing operations:							
Revenue	3	2,744.0	–	2,744.0	2,686.8	–	2,686.8
Cost of sales		1,950.4	–	1,950.4	1,937.0	–	1,937.0
Gross profit		793.6	–	793.6	749.8	–	749.8
Administrative expenses	4	398.5	47.8	446.3	392.1	58.1	450.2
Operating profit	8	395.1	(47.8)	347.3	357.7	(58.1)	299.6
Net finance costs	10	(31.8)	(6.6)	(38.4)	(32.8)	(1.4)	(34.2)
Investment income	6	0.9	–	0.9	0.2	–	0.2
Loss on business disposal	5	–	–	–	–	(7.5)	(7.5)
Profit before tax		364.2	(54.4)	309.8	325.1	(67.0)	258.1
Income tax expense	11	(89.2)	14.4	(74.8)	(87.1)	17.9	(69.2)
Profit for the year		275.0	(40.0)	235.0	238.0	(49.1)	188.9
Attributable to:							
Equity holders of the parent		275.0	(40.0)	235.0	238.0	(49.1)	188.9
Earnings per share	12						
– basic		44.98p	(6.54)p	38.44p	38.75p	(7.99)p	30.76p
– diluted		44.48p	(6.47)p	38.01p	38.42p	(7.92)p	30.50p

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Notes	2010 £m	2010 £m	2009 £m	2009 £m
Profit for the year			235.0		188.9
Other comprehensive income/(expense):					
Actuarial losses on defined benefit pension schemes	32	(14.1)		(58.2)	
Income tax effect	11	2.7		16.3	
			(11.4)		(41.9)
Exchange differences on translation of foreign operations			1.1		(2.3)
Gains/(losses) on cash flow hedges arising during the year	26	2.8		(10.8)	
Reclassification adjustments for gains included in the income statement	26	(2.0)		(4.1)	
Income tax effect	11	(0.2)		4.2	
			0.6		(10.7)
Other comprehensive expense for the year net of tax			(9.7)		(54.9)
Total comprehensive income for the year net of tax			225.3		134.0
Attributable to:					
Equity holders of the parent			225.3		134.0

Consolidated balance sheet

as at 31 December 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Property, plant and equipment	14	291.4	256.6
Intangible assets	15	1,416.0	1,107.0
Financial assets	17	237.4	186.3
Trade and other receivables	19	66.8	61.8
		2,011.6	1,611.7
Current assets			
Financial assets	17	6.0	2.0
Trade and other receivables	19	704.2	576.9
Cash	20	38.5	181.5
		748.7	760.4
Total assets		2,760.3	2,372.1
Current liabilities			
Trade and other payables	21	855.2	768.7
Financial liabilities	23	114.1	19.8
Provisions	25	26.3	27.6
Income tax payable		42.9	37.5
		1,038.5	853.6
Non-current liabilities			
Trade and other payables	21	72.2	34.8
Financial liabilities	23	1,066.4	951.3
Deferred taxation	11	31.8	13.9
Provisions	25	31.3	20.4
Employee benefits	32	24.6	31.9
		1,226.3	1,052.3
Total liabilities		2,264.8	1,905.9
Net assets		495.5	466.2
Capital and reserves			
Issued share capital	27	13.0	12.9
Share premium		454.9	435.2
Employee Benefit Trust	27	(0.5)	(0.2)
Capital redemption reserve		1.8	1.8
Foreign currency translation reserve		5.4	4.3
Net unrealised gains reserve		8.4	7.8
Retained earnings		12.5	4.4
Equity shareholders' funds		495.5	466.2

Included in aggregate financial liabilities is an amount of £1,016.4m (2009: £720.5m) which represents the fair value of the Group's bonds which should be considered in conjunction with the aggregate value of currency and interest rate swaps of £194.3m included in financial assets and £11.4m included in financial liabilities (2009: £139.9m included in financial assets and £0.6m included in financial liabilities). Consequently, this gives an effective liability of £833.5m (2009: £581.2m).

The accounts were approved by the Board of Directors on 23 February 2011 and signed on its behalf by:

P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

Company registered number: 2081330

Consolidated statement of changes in equity

for the year ended 31 December 2010

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

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 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 1 currency in terms of another currency by use of the exchange rate between the 2 currencies. This process is required to consolidate the financial statements of foreign affiliates into the total Group financial statements and to recognise the conversion of foreign currency or the settlement of a receivable or payable denominated in foreign currency at a rate different from that at which the item is recorded.

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

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

Consolidated cash flow statement

for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Operating profit on continuing activities before interest and taxation		347.3	299.6
Depreciation	14	70.3	54.4
Amortisation of other intangible assets (treated as depreciation)	15	0.2	1.2
Amortisation of intangible assets recognised on acquisition	15	41.3	28.1
Share based payment expense	28	10.2	9.8
Pension charge	32	7.7	21.2
Pension contributions before exceptional additional contribution	32	(29.1)	(32.0)
Loss on sale of property, plant and equipment		0.8	1.1
Movement in provisions		7.5	25.5
Movement in provisions due to reclassification from payables during the year		–	17.2
Net movement in payables and receivables		(13.8)	10.6
Cash generated from operations before exceptional additional pension contribution		442.4	436.7
Income tax paid		(70.8)	(58.3)
Exceptional additional pension contribution	32	–	(40.0)
Net interest paid		(31.8)	(31.1)
Cash generated from operations after income tax, interest and exceptional additional pension contribution		339.8	307.3
Net cash used in investing activities			
Purchase of property, plant and equipment	14	(98.5)	(68.4)
Proceeds from sale of property, plant and equipment		0.1	0.1
Acquisition of subsidiary undertakings and businesses	18	(208.5)	(197.1)
Debt repaid on the acquisition of subsidiaries	18	(95.7)	–
Cash acquired with subsidiary undertakings	18	(7.2)	24.2
Disposal of financial assets	17	–	1.6
Purchase of financial assets	17	(1.1)	(0.4)
Investment loan	17	0.5	(0.6)
Proceeds on business disposal (net of cash sold)	5	–	8.0
Return on investment in joint venture	6/17	0.5	0.4
		(409.9)	(232.2)
Net cash (used in)/from financing activities			
Issue of ordinary share capital	27	19.8	24.9
Share buybacks	27	(115.7)	–
Share transaction costs	27	(0.5)	–
Dividends paid	13	(109.1)	(93.2)
Capital element of finance lease rental payments	29	(0.6)	–
Instalment debtor movement		6.6	(8.1)
Asset based securitised financing	29	(5.4)	6.7
Repayment of loan notes and long term debt	29	(217.4)	(108.0)
Proceeds on issue of debt	29	252.9	200.0
Financing arrangement costs	23	(2.3)	(2.6)
		(171.7)	19.7
Net (decrease)/increase in cash and cash equivalents		(241.8)	94.8
Cash and cash equivalents at the beginning of the period		181.5	86.7
Cash and cash equivalents at 31 December		(60.3)	181.5
Cash and cash equivalents comprise:			
Overdrafts		(98.8)	–
Cash at bank and in hand	20	38.5	181.5
Total		(60.3)	181.5

Notes to the consolidated financial statements

for the year ended 31 December 2010

1 Corporate information

The consolidated financial statements of The Capita Group Plc for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 23 February 2011. The Capita Group Plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

The principal activities of the Group are given in the business review on pages 54 to 60.

2 Summary of significant accounting policies

Underlying profit

The Group separately presents amortisation, the movement 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 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 the measurement and impairment of goodwill and the measurement of defined benefit obligations and provisions (see note 25). The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether goodwill is impaired on an annual basis and thus requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate (see note 16). Measurement of defined benefit obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the selection of a suitable discount rate (see note 32).

(a) Statement of compliance

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

The parent company continues to apply UK GAAP in the preparation of its individual financial statements and these are contained on pages 134 to 143.

(b) Basis of preparation

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

(c) Basis of consolidation

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

All intercompany balances and transactions, including unrealised profits arising from intragroup 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 The Capita Group Plc has control. Losses applicable to the non-controlling interests in a subsidiary are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

(d) Changes in accounting policies

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

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

- IFRS 3 Business Combinations (Revised)
- IAS 27 Consolidated and Separate Financial Statements (Amendment)
- IFRS 2 Group Cash-settled Share based Payment Arrangements
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)
- Improvements to IFRSs (2009)
- IFRIC 17 Distributions of Non-cash Assets to Owners

The principal effects of these changes are as follows:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) The revised business combinations standard introduces significant changes in the accounting for business combinations. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 Revised and IAS 27 (Amended) affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

This change in accounting policy was applied prospectively and had no material impact on earnings per share.

IFRS 2 Share based Payment – Group Cash-settled Share based Payment Transactions The standard has been amended to clarify the accounting for group cash-settled share based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment by the Group as of 1 January 2010 did not have any impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment) This amendment addresses the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk in particular situations. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

2 Summary of significant accounting policies (continued)

Improvements to IFRSs In April 2009 the International Accounting Standards Board issued its 2nd omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments, which are effective from 1 January 2010, did not have any impact on the financial position or performance of the Group.

IFRIC 17 Distribution of Non-cash Assets to Owners This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

(e) Revenue

Revenue is earned within the United Kingdom, Europe, India and South-East Asia.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Other than in respect of service contracts, described below, and where the Group is acting as lessor (see (v)), revenue represents fee income recognised in respect of services provided during the period (stated net of value added tax).

For time and materials contracts which are those where Capita provide staff to clients at hourly or daily rates, revenue is recognised on the basis of time worked. Revenue on contracts where there is an ongoing service (e.g. life and pension policy administration, hardware maintenance) is recognised over the period during which the service is provided.

Contracts where there are distinguishable components are separated and revenue is recognised individually on the basis that each component can be reliably estimated. Revenues and costs relating to each element are recognised simultaneously.

(f) Service contracts

(i) Brownfield outsourcing contracts – A brownfield contract is one where there is a transfer of an existing operation to the Group. For brownfield contracts all costs incurred prior to service commencement are expensed as incurred and revenue represents fee income in respect of services provided.

(ii) Greenfield outsourcing contracts – A greenfield contract is one in which an entirely new service is being established for a client. For these contracts no profit is recognised until service delivery commences and is being invoiced. Upon commencement, revenue represents fees invoiced in respect of services provided. Direct incremental costs incurred on the contract prior to service commencement and reimbursable during the contract, excluding any overheads, are included in prepayments and amortised over the life of the contract. On some contracts, non-refundable payments are received, prior to full service commencement, on the achievement of agreed contract delivery milestones. These are recognised as revenue when earned.

(iii) Property consultancy and transformation contracts – Revenue represents the sales value of work done in the year, including fees invoiced and estimates in respect of amounts to be invoiced after the year-end. Profits are recognised on long term contracts where the final outcome can be assessed with reasonable certainty. In calculating this, the percentage of completion method is used based on the proportion of costs incurred to the total estimated cost. Cost includes direct staff costs and outlays. Full provision is made for all known or anticipated losses on each contract immediately such losses are forecast.

In respect of construction contracts, gross amounts due from clients 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.

(g) Foreign currency translation

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

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

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

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

(h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings and long leasehold property	– over 50 years
Leasehold improvements	– period of the lease
Plant and equipment	– 3 to 10 years

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.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

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

(j) Business combinations and goodwill

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

Acquisitions on or after 1 January 2010

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

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

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

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 profit or loss.

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 profit or loss.

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 profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Contingent consideration was recognised only where the Group had a present obligation and the economic outflow was more likely than not and a reliable estimate was determinable. Any subsequent adjustment to the contingent consideration was recognised as part of goodwill.

Acquisitions prior to 1 January 2004 (IFRS transition date)

On transition to the adoption of IFRS, the Group took advantage of the exemption allowed in IFRS 1 not to restate business combinations which took place prior to the date of transition. Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at this date (deemed cost). This goodwill had been amortised on a straight-line basis over its useful economic life (ranging from 5 to 20 years).

Goodwill

Following initial recognition goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves and does not get recycled through the income statement.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (Amended), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(k) Intangible assets

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2009 or 2010. 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 as follows:

- brands are amortised evenly over their useful economic lives of between 5 and 10 years
- software and licences are amortised over their useful economic lives of 5 years
- contracts and committed sales are amortised over their useful economic lives of between 1.5 and 15 years
- client lists and relationships are amortised over their useful economic lives of between 4 and 10 years
- other intangibles are amortised over their useful economic lives of 6.5 years.

2 Summary of significant accounting policies (continued)

(l) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

(m) Investments and other financial assets

All investments are initially recorded at their fair value. Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Investment loans are measured at amortised cost using the effective interest method.

Available for sale financial assets are measured at their fair value with unrealised gains or losses being recognised directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Financial assets at fair value through the income statement (disclosed in investment income) include financial assets designated upon initial recognition as at fair value through the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

(n) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(o) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at their fair value.

After initial recognition loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(r) Surplus properties

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.

(s) Pre-contract costs

Pre-contract award bidding costs are expensed as incurred.

(t) Pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement for the year when they are due.

In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the income statement, unless the changes are conditional on employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the average vesting period.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are 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.

The interest cost element of the defined benefit pension charge represents a change in the present value of scheme obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on fair value of plan assets of contributions received and benefits paid during the year.

In respect of 3 of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only.

Actuarial gains and losses are fully recognised in equity through the statement of comprehensive income such that the balance sheet reflects the scheme's surplus or liability at the balance sheet date. Current and past service cost are charged to operating profit with the interest cost, net of expected return on assets in the plans, included within administrative expenses.

The liability on the balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

(u) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from 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.

(v) Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and is concerned with whether the fulfilment of the arrangement is dependent upon the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee: Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor: Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income arising from operating leases is recognised in the income statement on a straight-line basis over the lease term.

(w) Income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(x) Share based payments

The Group operates a number of executive and employee share schemes.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

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.

2 Summary of significant accounting policies (continued)

(x) Share based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

(y) Participation in Lloyd's Market Syndicate

Capita provides run-off administrative services to Lloyd's Syndicates. On occasion where there is a commercial driver to do so, the Group will take an equity holding in a Corporate Member (a limited liability company – operating in the Lloyd's market).

The Group has treated this arrangement as an investment in a joint venture, whereby the Group and the other venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group's investment in the joint venture is accounted for using the equity method of accounting. Under the equity method the investment in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity. The income statement reflects, where material, the share of the results of operations of the joint venture. Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The Corporate Member's share of the assets and liabilities of the Syndicate and the quota share arrangement are further disclosed in note 17 to these financial statements.

(z) New standards and interpretations not applied

The IASB and the IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

		Effective date
International Accounting Standards (IAS/IFRSs)		
IAS 32	Amendment: Classifications of Rights Issues	Annual periods after 1 February 2010
IAS 24	Related Party Disclosures (Revised)	1 January 2011
	Improvements to IFRSs (2010)	1 January 2011
IFRS 7	Amendment: Disclosures – Transfers of Financial Assets	Annual periods after 1 July 2011
IFRS 9	Financial Instruments	1 January 2013
IFRS Interpretations Committee (IFRIC)		
IFRIC 14	Amendment: Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Annual periods after 1 July 2010

The Directors do not currently anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

3 Revenue

Revenue disclosed in the income statement is analysed as follows:

	Notes	2010 £m	2009 £m
Rendering of services		**2,582.1**	2,528.9
Construction contracts	22	**161.9**	157.9
Revenue from operating activities		**2,744.0**	2,686.8
Finance revenue	10	**2.2**	1.9
Total revenue in accordance with IAS 18		**2,746.2**	2,688.7

4 Administrative expenses

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

	Notes	2010 £m	2009 £m
Intangible amortisation	15	**41.3**	28.1
Professional fees re acquisitions		**5.5**	–
Stamp duty paid on acquisitions		**1.0**	–
Arch cru costs (see note 25 – Provisions)		**–**	30.0
Total		**47.8**	58.1

Professional fees and stamp duty paid in the year being recognised directly in the consolidated income statement is as a direct result of the changes stipulated in IFRS 3 (Revised), previously these would have been included as a component of goodwill (see note 2 (j) – Business combinations and goodwill).

5 Loss on business disposal

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

	Notes	2009 £m
Fixed assets		0.4
Debtors		1.9
Creditors		(2.2)
Intangibles	15	5.9
Goodwill	15	7.3
Total net assets disposed of		13.3
Transitional services provided		2.2
Net proceeds received		(8.0)
Loss on business disposal		7.5

Notes to the consolidated financial statements

6 Investment income

	2010 £m	2009 £m
Investment in joint venture	0.9	0.2

This represents income recognised in relation to the Lloyd's Market Syndicates in which the Group has a joint venture arrangement as disclosed in note 17. During the year the Group received a dividend of £0.5m (2009: £0.4m) from the Syndicate which is reflected in the net assets recognised in the disclosure in note 17.

7 Segmental information

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the business review on pages 54 to 60. No operating segments have been aggregated to form the reportable operating segments below. The information disclosed below represents the way in which the results of the businesses are reported to the Group Board. However the 5 divisions have been disaggregated into 8 reportable segments.

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 2010 and 2009. All operations in 2010 are continuing.

Year ended 31 December 2010

Underlying segment revenue	HR Solutions £m	Property Consultancy £m	Insurance Services £m	Investor Services £m	Integrated Services £m	ICT, Health & Business Services £m	Life & Pensions Services £m	Professional Services £m	Total £m
Total segment revenue	283.0	328.5	184.9	191.6	266.2	873.5	621.1	435.2	3,184.0
Inter-segment revenue	(21.8)	(19.5)	–	(10.4)	(5.6)	(214.2)	(91.9)	(76.6)	(440.0)
Third party revenue	261.2	309.0	184.9	181.2	260.6	659.3	529.2	358.6	2,744.0
Underlying segment result									
Result after depreciation	30.0	26.9	25.1	42.9	50.6	89.5	59.6	80.7	405.3
Share based payment	(1.2)	(1.3)	(1.8)	(0.7)	(2.4)	(0.9)	(0.9)	(1.0)	(10.2)
	28.8	25.6	23.3	42.2	48.2	88.6	58.7	79.7	395.1
Non-underlying									
Intangible amortisation	(0.1)	(3.4)	(5.5)	(6.4)	–	(15.9)	(4.9)	(5.1)	(41.3)
Acquisition costs	–	(0.5)	(0.7)	(0.9)	–	(3.0)	(0.7)	(0.7)	(6.5)
	28.7	21.7	17.1	34.9	48.2	69.7	53.1	73.9	347.3
Net finance costs (before callable swaps)									(31.8)
Callable swaps									(6.6)
Investment income									0.9
Profit before tax									309.8
Corporation taxation									(74.8)
Profit after tax									235.0

7 Segmental information (continued)

Other segment information

Assets by segment	HR Solutions £m	Property Consultancy £m	Insurance Services £m	Investor Services £m	Integrated Services £m	ICT, Health & Business Services £m	Life & Pensions Services £m	Professional Services £m	Total £m
Assets	49.3	92.4	132.6	99.2	47.2	269.4	327.4	81.9	1,099.4
Intangible assets	91.2	98.6	300.2	198.4	10.1	482.6	119.8	115.1	1,416.0
	140.5	191.0	432.8	297.6	57.3	752.0	447.2	197.0	2,515.4
Liabilities	(29.6)	(43.5)	(51.6)	(47.1)	(103.3)	(397.8)	(220.1)	(178.4)	(1,071.4)
Net allocated assets	110.9	147.5	381.2	250.5	(46.0)	354.2	227.1	18.6	1,444.0
Unallocated assets									244.9
Unallocated liabilities									(1,193.4)
Total net assets									495.5
Capital expenditure									
Tangible assets	1.4	1.1	1.7	10.2	3.4	11.4	64.3	5.0	98.5
Depreciation charge	2.5	2.6	5.6	5.1	4.8	17.8	24.0	8.1	70.5
Intangible assets	0.0	33.6	47.3	3.7	0.0	259.8	0.0	6.1	350.5
Intangible amortisation	0.1	3.4	5.5	6.4	0.0	15.9	4.9	5.1	41.3

Unallocated assets include available for sale financial assets, the cash flow hedge financial asset, cash in bank and currency and interest rate swaps. Unallocated liabilities include lease obligations, loan notes, overdrafts, callable swaps, currency swaps, bonds and the pension liability.

The tables below present revenue by the geographical location of clients, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

Revenue	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	3,039.1	144.9	3184.0
Inter-segment revenue	(380.8)	(59.2)	(440.0)
Third party revenue	2,658.3	85.7	2,744.0
Other segment information			
Assets	1,049.7	49.7	1,099.4
Intangible assets	1,347.1	68.9	1,416.0
Unallocated assets	244.9	–	244.9
Total assets	2,641.7	118.6	2,760.3
Capital expenditure			
Tangible assets	91.5	7.0	98.5
Intangible assets	346.8	3.7	350.5

Notes to the consolidated financial statements

7 Segmental information (continued)

Year ended 31 December 2009

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

Other segment information

Assets by segment	HR Solutions £m	Property Consultancy £m	Insurance Services £m	Investor Services £m	Integrated Services £m	ICT, Health & Business Services £m	Life & Pensions Services £m	Professional Services £m	Total £m
Assets	37.3	82.5	98.3	85.9	108.3	136.4	223.8	122.8	895.3
Intangible assets	84.1	76.5	254.7	196.4	2.8	233.9	135.1	123.5	1,107.0
	121.4	159.0	353.0	282.3	111.1	370.3	358.9	246.3	2,002.3
Liabilities	(44.1)	(49.0)	(124.7)	(72.6)	(113.9)	(197.4)	(160.1)	(159.9)	(921.7)
Net allocated assets	77.3	110.0	228.3	209.7	(2.8)	172.9	198.8	86.4	1,080.6
Unallocated assets									369.8
Unallocated liabilities									(984.2)
Total net assets									466.2
Capital expenditure									
Tangible assets	1.4	2.1	2.4	12.8	6.8	9.7	28.8	4.4	68.4
Depreciation charge	1.7	3.2	5.8	3.8	19.8	6.6	9.1	5.6	55.6
Intangible assets	–	15.7	16.4	23.1	–	154.7	31.1	1.5	242.5
Intangible amortisation	–	1.7	4.8	4.6	–	6.2	4.1	6.7	28.1

Unallocated assets include available for sale financial assets, the cash flow hedge financial asset, cash in bank, currency and interest rate swaps. Unallocated liabilities include lease obligations, loan notes, callable swaps, currency swaps, bonds and the pension liability.

7 Segmental information (continued)

The tables below present revenue by the geographical location of clients, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

Revenue	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	2,964.0	129.8	3,093.8
Inter-segment revenue	(356.9)	(50.1)	(407.0)
Third party revenue	2,607.1	79.7	2,686.8
Other segment information			
Assets	866.3	29.0	895.3
Intangible assets	1,038.7	68.3	1,107.0
Unallocated assets	369.8	–	369.8
Total assets	2,274.8	97.3	2,372.1
Capital expenditure			
Tangible assets	67.9	0.5	68.4
Intangible assets	219.2	23.3	242.5

8 Operating profit

This is stated after charging/(crediting):

	Notes	**2010 £m**	2009 £m
Employee benefits expense	9	**1,149.1**	1,128.8
Amortisation of intangible assets (as shown in the non-underlying column)	15	**41.3**	28.1
Depreciation	14	**70.3**	54.4
Loss on sale of property, plant and equipment		**0.8**	1.1
Amortisation of other intangible assets (treated as depreciation)*	15	**0.2**	1.2
Minimum lease payments recognised as an operating lease expense		**75.2**	75.5
Foreign exchange differences		**(3.7)**	(2.3)

UK fees paid to the auditors include fees in relation to:	**2010 £m**	2009 £m
Audit of financial statements	**0.6**	0.6
Other UK fees:		
Local statutory audits for subsidiaries	**0.1**	0.3
Further assurance services	**–**	0.3
Other non-audit services**	**0.2**	0.8
	0.9	2.0

During 2010 the Group changed its auditor from Ernst & Young LLP to KPMG Audit Plc (KPMG). Thus the comparative figures refer to services provided by Ernst and Young LLP. During the year, in addition to the amounts disclosed as being paid to KPMG as auditor, a further £0.5m was paid for professional services prior to their appointment.

*Included within operating activities before amortisation.

**There were no other amounts payable to the auditors requiring disclosure under Section 494 of the Companies Act 2006.

Notes to the consolidated financial statements

9 Employee benefits expense

	Notes	2010 £m	2009 £m
Wages and salaries		1,002.5	974.7
Social security costs		96.1	92.2
Pension costs	32	40.3	52.1
Share based payments	28	10.2	9.8
		1,149.1	1,128.8

The average number of employees during the year was made up as follows:	2010 Number	2009 Number
Sales	1,013	776
Administration	3,035	2,060
Operations	31,367	31,789
	35,415	34,625

Details of Directors' remuneration are contained within the Directors' remuneration report – section subject to audit, on pages 86 to 90.

10 Net finance costs

	Notes	2010 £m	2009 £m
Bank interest receivable		(1.9)	(0.5)
Other interest receivable		(0.3)	(1.4)
Interest receivable		(2.2)	(1.9)
Loan note interest		0.1	0.7
Bonds		17.3	26.2
Callable swaps – realised		11.7	5.0
Bank loans and overdrafts		4.8	2.1
Other interest payable		0.1	0.6
Unwinding of interest on discounted property provision		–	0.1
Interest payable		34.0	34.7
Underlying net finance costs		31.8	32.8
Callable swaps – mark to market	26	6.6	(1.1)
Mark to market movement on currency swaps***	26	–	2.5
Non-underlying net finance costs		6.6	1.4
Total net finance costs		38.4	34.2

11 Income tax

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

Consolidated income statement	2010 £m	2009 £m
Current income tax		
Current income tax charge	87.0	69.1
Adjustment in respect of prior years	(6.0)	(9.4)
Deferred income tax		
Origination and reversal of temporary differences	(5.2)	3.5
Adjustment in respect of prior years	(1.0)	6.0
	74.8	69.2

Consolidated statement of comprehensive income	2010 £m	2009 £m
Deferred income tax on cash flow hedges	0.2	(4.2)
Deferred income tax movement in relation to actuarial losses on defined benefit plans	(2.7)	(16.3)
	(2.5)	(20.5)

***The mark to market movement on currency swaps represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments. The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps continue to act as an effective hedge against the movements in the fair value of the Group's issued US$ denominated bonds (see note 26 – Hedges).

11 Income tax (continued)

Income tax related to items (credited)/charged directly to equity: Consolidated statement of changes in equity	2010 £m	2009 £m
Current income tax deduction on exercise of stock options in excess of share based payments	(4.0)	(6.0)
Deferred income tax movement in relation to share based payment	4.7	12.2
	0.7	6.2

The reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2010 and 2009 is as follows:

	2010 £m	2009 £m
Accounting profit before tax	309.8	258.1
Notional charge at UK corporation tax rate of 28% (2009: 28%)	86.7	72.2
Adjustments in respect of current income tax of prior years	(6.0)	(9.4)
Adjustments in respect of deferred tax of prior years	(1.0)	6.0
Non-deductible expenses	2.3	4.2
Attributable to reduction in corporation tax rate	(1.8)	–
Attributable to lower tax rates in overseas jurisdictions	(5.4)	(3.8)
At the effective tax rate of 24.1% (2009: 26.8%)	74.8	69.2
Total tax expense reported in the income statement	74.8	69.2

The tax charge for the year ended 31 December 2010 was £74.8m (2009: charge of £69.2m) and is after a prior year net credit of £7.0m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an effective tax rate of 24.1% (2009: 26.8%). The effective tax rate on underlying profit is 24.5% (2009: 26.8%). In addition, a net tax credit of £4.0m has been credited directly to equity in respect of realised stock option gains which resulted in a corresponding reduction in cash tax liabilities for the year ended 31 December 2010.

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2010 £m	2009 £m	2010 £m	2009 £m
Deferred tax liabilities				
Accelerated capital allowances	(10.4)	(13.5)	0.7	11.6
Cash flow hedges	(3.1)	(3.0)	–	–
Fair value adjustments on acquisition	(55.3)	(35.3)	(11.9)	(9.0)
	(68.8)	(51.8)		
Deferred tax assets				
Share based payments	4.9	6.7	(2.9)	(2.7)
Pension schemes' liability	6.7	8.9	5.0	14.2
Provisions	14.6	12.8	3.0	(4.9)
Losses available for offset against future taxable income	–	0.2	1.5	0.7
Mark to market movement on currency swaps	0.7	0.7	–	(0.7)
Cash flow swaps	10.1	8.6	(1.6)	0.3
	37.0	37.9		
Net deferred tax liability	(31.8)	(13.9)		
Deferred income tax (credit)/expense			(6.2)	9.5

The Group has tax losses and other temporary differences of £85.3m (2009: £55.2m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose; of which £81.8m are related to losses incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance. Deferred tax assets have not been recognised in respect of £85.3m (2009: £54.5m) of these losses or other temporary differences, as their recoverability is uncertain.

The UK corporation tax rate will decrease from 28% to 27% from 1 April 2011. The deferred tax balance has been adjusted in the current year to reflect this change. Proposed changes to tax laws and rates that will have an effect on the deferred tax assets and liabilities of the Group have also been announced but not substantively enacted at the balance sheet date. The impact of these changes on the Group is not considered to be material.

12 Earnings per share

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

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

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

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

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

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

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

		2010 p	2009 p
Basic earnings per share	– underlying	**44.98**	38.75
	– after non-underlying	**38.44**	30.76
Diluted earnings per share	– underlying	**44.48**	38.42
	– after non-underlying	**38.01**	30.50

13 Dividends paid and proposed

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

14 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2009	64.3	281.8	346.1
Subsidiaries acquired	1.0	4.9	5.9
Additions	6.7	61.7	68.4
Disposals	(2.7)	(18.3)	(21.0)
At 31 December 2009	69.3	330.1	399.4
Subsidiaries acquired	1.9	5.4	7.3
Additions	6.1	92.4	98.5
Disposals	(7.9)	(32.2)	(40.1)
At 31 December 2010	69.4	395.7	465.1
Depreciation and impairment			
At 1 January 2009	22.4	85.4	107.8
Provided during the year	9.6	44.8	54.4
Disposals	(2.4)	(17.0)	(19.4)
At 31 December 2009	29.6	113.2	142.8
Provided during the year	10.3	60.0	70.3
Disposals	(7.5)	(31.9)	(39.4)
At 31 December 2010	32.4	141.3	173.7
Net book value			
At 1 January 2009	41.9	196.4	238.3
At 31 December 2009	39.7	216.9	256.6
At 31 December 2010	37.0	254.4	291.4

The net book value of plant and machinery includes an amount of £0.8m (2009: £1.6m) in respect of assets held under finance leases.

Notes to the consolidated financial statements

15 Intangible assets

	Brands £m	Software and licences £m	Contracts and committed sales £m	Client lists and relationships £m	Goodwill £m	Sub-total £m	Other intangibles £m	Total £m
Cost								
At 1 January 2009	11.7	14.5	20.2	82.3	830.4	959.1	13.4	972.5
Recognition of intangibles – prior year acquisitions	1.7	(3.9)	–	12.2	(9.1)	0.9	–	0.9
Subsidiaries acquired	6.4	–	13.1	62.8	159.3	241.6	–	241.6
Disposals	(0.7)	(1.4)	–	(5.3)	(7.3)	(14.7)	–	(14.7)
At 31 December 2009	19.1	9.2	33.3	152.0	973.3	1,186.9	13.4	1,200.3
Recognition of intangibles – prior year acquisitions	**–**	**–**	**–**	**0.2**	**(0.2)**	**–**	**–**	**–**
Subsidiaries acquired	**6.0**	**9.8**	**59.9**	**43.5**	**231.3**	**350.5**	**–**	**350.5**
At 31 December 2010	**25.1**	**19.0**	**93.2**	**195.7**	**1,204.4**	**1,537.4**	**13.4**	**1,550.8**
Amortisation and impairment								
At 1 January 2009	6.0	4.2	6.5	24.8	12.0	53.5	12.0	65.5
Amortisation during the year	2.7	1.4	2.0	22.0	–	28.1	1.2	29.3
Disposals	(0.1)	(0.3)	–	(1.1)	–	(1.5)	–	(1.5)
At 31 December 2009	8.6	5.3	8.5	45.7	12.0	80.1	13.2	93.3
Amortisation during the year	**3.5**	**1.5**	**6.6**	**29.7**	**–**	**41.3**	**0.2**	**41.5**
At 31 December 2010	**12.1**	**6.8**	**15.1**	**75.4**	**12.0**	**121.4**	**13.4**	**134.8**
Net book value								
At 1 January 2009	5.7	10.3	13.7	57.5	818.4	905.6	1.4	907.0
At 31 December 2009	10.5	3.9	24.8	106.3	961.3	1,106.8	0.2	1,107.0
At 31 December 2010	**13.0**	**12.2**	**78.1**	**120.3**	**1,192.4**	**1,416.0**	**–**	**1,416.0**

During the year a total of £0.2m (2009: £10.0m) of intangible assets was recognised or derecognised in respect of prior year acquisitions for which the provisional intangible valuations performed in the previous year have now been completed. This has resulted in a reduction in the value of goodwill. As required by IAS 12, deferred taxation is recognised in respect of these items, the impact of this was to increase goodwill in 2010 by £nil (2009: £0.9m) and to create a deferred tax liability of the same amount.

The amount in 'other intangibles' represents the consideration paid to AON to acquire the contract for the administration of the miners' personal injury liability claims on behalf of the Department of Energy and Climate Change.

16 Impairment of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the groups of cash generating units (CGUs) listed below. These represent the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes.

The significant groups of CGUs identified are Local government software and partnerships, Property Consultancy, HR Solutions, Insurance Services, Registrar Services, Financial Services, Life & Pensions Services and IT & Software Services. The remaining groups of CGUs are included in the 'balance of non-significant CGUs' column.

The recoverable amount of all the CGUs is based on a value in use calculation using cash flow projections based on the latest 1 year budget forecast extrapolated for 4 future years by a growth rate applicable to each unit; an appropriate terminal value based on a perpetuity calculation using nil real growth is then added. A pre-tax discount rate of 10.5% (2009: 10.5%) is then applied to these projections.

Compound growth rates (years 2–5)	%
Local Government Software and Partnerships	**8.1**
Property Consultancy	**8.1**
HR Solutions	**8.1**
Insurance Services	**5.1**
Registrar Services	**7.2**
Financial Services	**7.6**
Life & Pensions Services	**7.5**
IT & Software Services	**8.1**
Balance of non-significant CGUs (weighted average growth rate)	**6.3**

16 Impairment of goodwill (continued)

Carrying amount of goodwill allocated to groups of cash generating units

	Local Government Software & Partnerships £m	Property Consultancy £m	HR Solutions £m	Insurance Services £m	Registrar Services £m	Financial Services £m	Life & Pensions Services £m	IT & Software Services £m	Balance of non-significant CGUs £m	Total £m
2010										
Goodwill	**81.5**	**86.4**	**91.3**	**276.3**	**125.5**	**57.2**	**90.4**	**224.4**	**159.4**	**1,192.4**
2009										
Goodwill	81.5	62.3	91.3	244.8	123.5	57.2	90.4	141.0	69.3	961.3

The key assumptions used in the impairment testing were as follows:

- profit before interest and taxation
- discount rates
- rates of growth in CGUs for the years 2 to 5.

Profit before interest and taxation
The profit before interest and taxation is based on the assumption that future margins will remain at the levels currently being achieved.

Discount rate
The discount rate reflects management's estimate of the gross cost of capital employed for the groups of CGUs listed above. This is the benchmark established to assess operating performance and to evaluate future capital investment proposals. The rate applied to all CGUs is the same across all units, this reflects the Group's funding arrangements where all units have equal access to the Group's treasury functions and borrowing lines to fund their operations. None of the Group's CGUs demonstrates levels of risk that are significantly different to that experienced by the Group generally and all have similar funding profiles and therefore the discount rate applied is deemed to be justified.

Rates of growth in cash-generating units beyond the budget period (years 2 to 5)
Growth rate assumptions are based on, as far as possible, published industry research (IDC – 2010). Where the cash-generating unit does not correspond directly with the research undertaken then the growth rate used is that of the nearest possible match in relation to the risks experienced within the associated market. The rates used are further cross-checked with the senior operational management of the units in question.

Goodwill impairment
Management believes that no reasonably possible change in the key assumptions above would cause any of the identified CGUs to become impaired.

17 Financial assets

Current financial assets	2010 £m	2009 £m
Investment loan[1]	**1.0**	–
Cash flow hedges[2]	**5.0**	2.0
	6.0	2.0

	2010 £m	2009 £m
Non-current financial assets		
Available for sale assets[3]	**0.7**	0.7
Investment loan[1]	**35.2**	36.7
Cash flow hedges[2]	**6.6**	8.8
Currency swaps in relation to US$ denominated bonds[4]	**189.9**	136.6
Interest rate swaps in relation to GBP denominated bonds[4]	**4.4**	3.3
Investment in a joint venture[5]	**0.6**	0.2
	237.4	186.3

[1] The Group has entered into a funding arrangement with Optima Legal Services Limited (OLSL) and during the year has not increased the level of funding advanced (2009: £1.4m).

[2] The cash flow hedges are used to hedge the exposure to currency fluctuations in the Group's forecast transactional cash flows, principally in Indian rupees. Details of the cash flow hedges are contained in note 26.

[3] 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.

[4] The currency swaps are used to hedge the exposure to interest rate and currency fluctuations on the Group's US$ denominated bonds. The uplift in the fair value of the underlying bonds due to changes in interest and currency rates is equivalent to the fair value of the currency swaps recognised above. The interest rate swaps are used to hedge the fair value of the Group's GBP denominated bonds and the uplift in the fair value of the underlying bonds due to changes in interest rates is equivalent to the fair value of the interest rate swaps recognised above. Details of the interest rate swap, currency swaps and cash flow hedges are contained in note 26.

[5] The investment in a joint venture disclosed represents the Group's interest in a Syndicate (for which the Group provides administrative outsourcing services) operating in the Lloyd's Market, through its joint venture ownership of Cobex Corporate Member No 1 Limited (Cobex) in conjunction with the Group's insurance partners. The Group's share of the net assets and liabilities of this Syndicate are set out in the table headed 'Investment in joint venture'.

Notes to the consolidated financial statements

17 Financial assets (continued)

Investment in joint venture	2010 £m	2009 £m
Investments	10.2	16.4
Reinsurance assets	6.2	7.0
Other debtors	1.8	2.7
Cash and cash equivalents	2.3	0.7
Total assets	20.5	26.8
Technical provisions	13.7	22.0
Other creditors	5.6	4.3
Accruals and deferred income	0.6	0.3
Total liabilities	19.9	26.6
Net position	0.6	0.2

The Group, through Capita Commercial Insurance Services Limited, a wholly owned subsidiary, has a 50.1% holding in Cobex Corporate Member No 1 Limited (Cobex). In addition to the assets and liabilities of the underlying Syndicate, Cobex has in place a quota share arrangement with its insurance partners such that only 8.86% of any profit or loss declared by the Syndicate, in respect of Cobex, would be attributable to the Group.

The Group has no rights over the assets or liabilities of the Syndicate other than to the extent that it will receive distributed profits or contribute to relieve losses. The Group has in place a letter of credit amounting to £1.0m (2009: £1.0m) which is the maximum exposure that the Group has to losses generated within the Syndicate.

18 Business combinations

The Group made a number of acquisitions in 2010 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition £m
Intangible assets	119.4
Property, plant and equipment	7.3
Deferred tax	9.6
Debtors	128.0
Bank loans and overdrafts	(7.2)
Finance leases	(1.6)
Creditors	(118.4)
Long term debt	(109.6)
Provisions	(2.1)
Corporation tax	(1.8)
Net assets	23.6
Goodwill arising on acquisition	195.4
	219.0
Discharged by:	
Cash	200.8
Contingent consideration accrued	18.2
	219.0

A further £31.8m was added to goodwill in relation to deferred tax on the intangible assets valued at acquisition.

During the year the Group has completed a number of acquisitions which are shown in aggregate above. In all cases 100% of the ordinary share capital was acquired and the consideration satisfied in cash. The companies acquired have been mainly in the areas of Health, Property and IT and complement or extend the Group's existing skill sets and provide opportunities for growth into the Health market. In addition during the year the Group settled deferred consideration payments with regard to previous acquisitions amounting to £3.7m, of which £1.8m was accrued. The impact of this was to increase goodwill by £1.9m.

During the year some of the acquired businesses have been completely integrated into the existing businesses of the Group and therefore their post-acquisition performance cannot be determined. In aggregate for the year, the other acquired subsidiaries contributed £12.3m to the profit before tax of the Group. If the acquisition had occurred on 1 January 2010, Group revenue would have been an estimated £2,924.0m and Group profit before tax would have been an estimated £324.1m. In determining these amounts, management 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 2010.

18 Business combinations (continued)

Goodwill has arisen on the acquisition because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses.

Contingent consideration

The Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post-acquisition. These performance periods are of 2 years' duration and will be settled in cash on their payment date on achieving the relevant target. The estimated range of the additional consideration payment is estimated to be between £15m and £20m. The group has included £18.2m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighing the probability of a range of payments to give an estimate of the final obligation. There is further deferred consideration accrued of £1.7m in respect of acquisitions in previous years and these are expected to be paid in the forthcoming year.

Fair values remain provisional in relation to the acquisitions that were completed in the final quarter of 2010. The Group will complete this review in the first quarter of 2011, any adjustment to the carrying value is unlikely to be significant to the individual acquisition.

Acquisition related costs

The Group incurred acquisition related costs of £6.5m related to professional fees paid for due diligence, general professional fees and legal advice. These costs have been included in administrative expenses in the Group's consolidated income statement. A further £0.3m was incurred with regard to acquisitions in the previous year and this has resulted in a £0.3m increase in goodwill.

2009 acquisitions

The Group made a number of acquisitions in 2009 which are shown in aggregate. The book and fair values of the assets acquired are disclosed in the table below:

	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	10.1	72.2	82.3
Property, plant and equipment	5.9	–	5.9
Deferred tax	5.9	(20.9)	(15.0)
Debtors	59.6	(0.4)	59.2
Cash and short term deposits	24.2	–	24.2
Creditors	(96.7)	(0.5)	(97.2)
Long term debt	(9.1)	–	(9.1)
Provisions	–	(2.2)	(2.2)
Corporation tax	(1.9)	–	(1.9)
Net assets	(2.0)	48.2	46.2
Goodwill arising on acquisition			159.3
			205.5
Discharged by:			
Cash			196.4
Deferred consideration paid			0.7
Deferred consideration accrued			8.4
			205.5

Included within the table above are the net assets of Synetrix (Holdings) Limited of £7.1m, including recognised intangible assets of £28.1m. The cash consideration paid was £77.6m with resulting goodwill of £70.5m. Intangible valuations relating to this acquisition had been performed on a provisional basis and the exercise was completed in the subsequent year.

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

Acquisitions in the year included FMS (Netherlands) B.V., CHKS Limited, Hero Insurance Services Limited, MMB Associates Limited, Gissings Holdings Limited, Carillion IT Services Limited (now know as Capita IT Services Limited), Fidei Fiduciaire S.à.r.l, IMMO Guillaume Schneider S.A., IMMO J.A S.A., Multi-Tech Group Limited and Synetrix (Holdings) Limited.

For all acquisitions in 2009 the Group acquired 100% of the issued share capital of the acquired company.

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably. These items include client loyalty and the assembled workforce.

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19 Trade and other receivables

Current	2010 £m	2009 £m
Trade receivables	385.6	308.1
Other receivables	23.7	27.8
Gross amounts due from customers on construction contracts	20.3	25.4
Accrued income	215.0	168.4
Prepayments	59.6	47.2
	704.2	576.9

Non-current	2010 £m	2009 £m
Other receivables	25.4	20.3
Accrued income	31.1	35.4
Prepayments	10.3	6.1
	66.8	61.8

Trade receivables are non-interest bearing and are generally on 30 days' terms.

At 31 December 2010, trade receivables at a nominal value of £22.7m (2009: £10.5m) were impaired and fully provided for.

Movements in the provision for impairment of trade receivables were as follows:

	2010 £m	2009 £m
At 1 January	10.5	7.1
Provisions acquired	15.3	3.2
Charge for year	13.7	4.1
Amounts written off	(0.3)	(1.9)
Unused amounts reversed	(16.5)	(2.0)
	22.7	10.5

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	0–3 months £m	4–6 months £m	7–12 months £m	More than 12 months £m
2010	385.6	308.5	43.0	12.8	11.7	9.6
2009	308.1	245.3	56.5	6.3	–	–

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty.

20 Cash at bank and in hand

	2010 £m	2009 £m
Cash at bank and in hand	**38.5**	181.5

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash is the same as the carrying amount above.

21 Trade and other payables

Current	2010 £m	2009 £m
Trade payables	**175.0**	96.2
Other payables	**97.9**	76.2
Other taxes and social security	**68.5**	64.1
Gross amounts due to customers on construction contracts	**2.1**	7.2
Accruals	**319.3**	301.0
Deferred income	**190.7**	215.6
Deferred consideration payable	**1.7**	8.4
	855.2	768.7
Non-current		
Accruals	**2.9**	0.6
Deferred income	**51.1**	34.2
Deferred consideration payable	**18.2**	–
	72.2	34.8

Trade payables are non-interest bearing and are normally settled on terms agreed with suppliers.

22 Construction contracts

Presented in the table below are disclosures with regard to the Group's property consultancy business where the provision, as a sub-contractor, is architectural, structural or another service that results in the construction of a new asset.

	2010 £m	2009 £m
Contract revenue recognised in relation to construction contracts in the year	**161.9**	157.9
Aggregate costs incurred and recognised profits (less losses) to date	**259.1**	201.9
Gross amount due from customers for construction contracts	**20.3**	25.4
Gross amount due to customers on construction contracts	**2.1**	7.2

23 Financial liabilities

Current	Notes	2010 £m	2009 £m
Obligations under finance leases	24	**1.3**	0.1
Unsecured loan notes		**2.3**	2.6
Overdraft and bank loans		**98.8**	–
Asset-based securitised financing (see below)		**11.7**	17.1
		114.1	19.8
Non-current			
Obligations under finance leases	24	**1.1**	1.3
Bonds		**1,016.4**	720.5
Term debt		**–**	198.0
Currency swaps in relation to US$ denominated bonds		**11.4**	0.6
Callable swaps		**37.5**	30.9
		1,066.4	951.3

Included in current Overdraft and bank loans of £98.8m above are short term borrowings under the Group's committed revolving credit facilities due to mature in December 2015.

The aggregate bond value stated above of £1,016.4m (net of issue costs) includes a fair value adjustment for interest rate and currency risk of the bonds at 31 December 2010. 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 17 – Financial assets and note 23 – Financial liabilities in the current and comparative years.

During the year the Group repaid £200m of term debt (shown above in the comparative period – net of issue costs). The Group issued fixed rate bonds which replaced the more expensive term debt; these were US$300m (sterling equivalent: £202.8m) and £50m bonds giving an aggregate bond issue of £252.8m in the year. The bonds had a weighted average maturity of 10 years and a weighted average coupon rate of 4.71%. Currency swaps were taken out to convert the US$ denominated bonds to a variable rate based on 6M LIBOR.

The Group has insurance debtors which are subject to a securitisation agreement. The purpose of this arrangement is to securitise client receivables, derived through the provision of instalment credit facilities to insurance clients of the Group. The Group sells these receivables, with no immediate effect on the income statement, for cash to a third party. The third party takes on the rights and responsibilities of these receivables such that the terms of this agreement dictate that it has no recourse to the Group beyond 14% of the total receivable securitised.

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23 Financial liabilities (continued)

The obligations under finance leases are secured on the assets being financed. The bonds and loan notes are unsecured. Loan notes issued during the year amounted to £nil (2009: £ nil) and £0.7m (2009: £1.4m) were repaid. The interest rates attributable to the loan notes are fixed for each new issue. The rates attributable to these remaining loan notes ranged from 0.87% to 5.00%. The outstanding loan notes totalling £2.3m are repayable on demand and have a final weighted average maturity of less than 1 year.

The Group has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005* **				
Series A	0.525 above 6m GBP LIBOR	GBP	50.0	28 September 2013
Series B	0.525 above 6m GBP LIBOR	GBP	25.0	28 September 2015
Issued 2008*				
Series C	7.19	GBP	32.0	13 September 2015
Issued 2010				
Series C	4.78	GBP	50.0	30 June 2020
Total of sterling denominated bonds			157.0	
			US$m	
Issued 2002* **				
Series C	6.47	US$**	36.0	20 June 2012
Issued 2006* **				
Series A	5.74	US$**	60.0	28 June 2013
Series B	5.88	US$**	130.0	28 June 2016
Series A	5.66	US$**	11.0	13 September 2013
Series B	5.81	US$**	74.0	13 September 2016
Series C	5.77	US$**	60.0	13 September 2016
Issued 2007* **				
Series A	5.57	US$**	21.0	11 October 2014
Series B	5.88	US$**	179.0	11 October 2017
Issued 2008 **				
Series A	6.04	US$**	80.0	13 September 2015
Series B	6.51	US$**	256.0	13 September 2018
Issued 2010**				
Series A	4.15	US$**	50.0	30 June 2017
Series B	4.80	US$**	250.0	30 June 2020
Total of US$ denominated bonds			1,207.0	

All series are unsecured and rank pari passu in all respects.

In January 2011 the Group issued £50m GBP bonds and US$80m with a maturity date of July 2019.

The issue costs incurred on the issue of the bonds during the year amounted to £0.7m (2009: term debt issue costs £2.6m). Issue costs on the bonds and term debt are spread over the life of the bonds and term debt to their maturity. The unamortised balance of issue costs at the year end totalled £1.6m (2009: £3.1m).

* The Group has entered into an interest rate swap to convert the interest cost to a floating rate based on 6 month GBP LIBOR.
** 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.
***Subsequently, the Group has entered a series of callable interest rate swaps to convert these issues from paying a floating rate based on 6 month LIBOR to fixed rates. See note 26 for further details of these callable swaps.

24 Obligations under leases and hire purchase contracts

Obligations under finance 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:

	2010 £m	2009 £m
Not later than 1 year	1.3	0.1
Later than 1 year but not more than 5 years	1.1	1.3
	2.4	1.4

The Group has entered into commercial leases on certain properties, motor vehicles and items of plant and machinery. These leases have an average duration of between 3 and 10 years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2010 £m	2009 £m
Not later than 1 year	66.6	59.3
Later than 1 year but not later than 5 years	139.6	128.5
Later than 5 years	59.2	53.9
	265.4	241.7

25 Provisions

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

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

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

In addition, CFM has informed investors in the OEICs that it is undertaking a review to determine whether such investors have suffered any detriment and, if so, to what extent any of the parties involved should be responsible for compensating them. This is a complex exercise involving a number of parties including CFM's regulator and it is taking longer than anticipated, but we are determined to ensure that the matter is concluded in a way that takes appropriate account of the results of the review and the interests of investors in the OEICs, but also recognises the interests of Capita's shareholders. The final liability to CFM and to the Group remains subject to uncertainties. At 31 December 2010, the Directors continue to provide £18.5m which they believe represents the most likely future total cost to the Group. This figure has been disclosed separately from the Group's underlying profit in our accounts for the year ended 31 December 2009. The Directors expect that insurance cover will be available in respect of certain costs regarding this matter. It is expected that an outcome will be reached in 2011.

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

Other relates to provisions in respect of potential litigation 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, callable interest rate swaps and forward currency contracts. Their purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short term debtors, creditors and cash in hand) that are carried in the financial statements. The values represent both the carrying amounts and the fair values.

At 31 December 2010	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	0.7	–	–	–	–	0.7
Investment loan	–	–	36.2	–	–	36.2
Cash flow hedges	–	–	–	11.6	–	11.6
Interest rate swaps in relation to GBP denominated bonds	–	–	–	4.4	–	4.4
Currency swaps in relation to US$ denominated bonds	–	–	–	189.9	–	189.9
	0.7	–	36.2	205.9	–	242.8
Financial liabilities						
Overdrafts and bank loans	–	–	–	–	98.8	98.8
Unsecured loan notes	–	–	–	–	2.3	2.3
Bonds	–	–	–	–	1,016.4	1,016.4
Currency swaps in relation to US$ denominated bonds	–	–	–	11.4	–	11.4
Asset-based securitised financing	–	–	–	–	11.7	11.7
Obligations under finance leases	–	–	–	–	2.4	2.4
Callable swaps	–	37.5	–	–	–	37.5
	–	37.5	–	11.4	1,131.6	1,180.5

The aggregate bond value above of £1,016.4m includes the GBP value of the US$ denominated bonds at 31 December 2010. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the 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 value of the currency and interest swaps are disclosed in note 17 – Financial assets and in note 23 – Financial liabilities in the current year.

26 Financial instruments (continued)

At 31 December 2009	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	0.7	–	–	–	–	0.7
Investment loan	–	–	36.7	–	–	36.7
Cash flow hedges	–	–	–	10.8	–	10.8
Interest rate swaps in relation to GBP denominated bonds	–	–	–	3.3	–	3.3
Currency swaps in relation to US$ denominated bonds	–	–	–	136.6	–	136.6
	0.7	–	36.7	150.7	–	188.1
Financial liabilities						
Unsecured loan notes	–	–	–	–	2.6	2.6
Bonds	–	–	–	–	720.5	720.5
Currency swaps in relation to US$ denominated bonds	–	–	–	0.6	–	0.6
Term debt	–	–	–	–	198.0	198.0
Asset-based securitised financing	–	–	–	–	17.1	17.1
Obligations under finance leases	–	–	–	–	1.4	1.4
Callable swaps	–	30.9	–	–	–	30.9
	–	30.9	–	0.6	939.6	971.1

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, interest rate curves and volatility surfaces. Unlisted equity securities and investment loans are held at amortised cost. The Group enters into derivative financial instruments with multiple counterparties, all of which are financial institutions with investment grade credit ratings.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

At 31 December 2010	2010 £m	2009 £m
Assets measured at fair value		
Cash flow hedges	**11.6**	10.8
Interest rate swaps in relation to GBP denominated bonds	**4.4**	3.3
Currency swaps in relation to US$ denominated bonds	**189.9**	136.6
Liabilities measured at fair value		
Bonds*	**966.4**	720.5
Currency swaps in relation to US$ denominated bonds	**11.4**	0.6
Callable swaps	**37.5**	30.9

During both years the Group only had Level 2 assets or liabilities measured at fair value. Consequently, during the year ended 31 December 2010, 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.

* Included in the total carrying value of the Group's bonds of £1,016.4m (2009: £720.5m), £50m is carried at amortised cost rather than fair value (2009: £nil). At 31 December 2010 the carrying value of these bonds at amortised cost was equivalent to their fair value at that date.

26 Financial instruments (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates arises primarily from the Group's long term debt.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate financial instruments to generate the desired interest rate profile and to manage its exposure to interest rate fluctuations.

The Group has primarily issued fixed rate coupon US$ denominated bonds, which have been swapped to floating rate GBP liabilities at the date of issuance using currency swaps. These currency swaps are designated as fair value hedges against changes in the fair value of the bonds due to changes in prevailing foreign currency exchange and interest rates.

In February 2008, Capita executed a series of callable interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. The counterparty holds the option to cancel these swaps on each semi-annual coupon payment date. These callable interest rate swaps are not designated in any hedge relationship so their change in fair value is recognised in net finance costs in the income statement – see note 10 – Net finance cost.

Following the fall in interest rates at the end of 2008 these callable swaps show a negative mark to market value of £37.5m at 31 December 2010 (2009: negative mark to market value of £30.9m). This movement results in a non-cash accounting loss in the year of £6.6m (2009: profit of £1.1m). The callable swap will reverse through the income statement as the mark to market valuation will tend towards zero as the swaps approach maturity or cancellation.

In addition to the fixed rate bonds of £429.6m in issue as at 31 December 2010 (underlying value – not adjusted for the impact of the swaps), the Group had a further £403m of swapped bonds, and a £425m revolving credit facility, both paying floating rate interest. This gives the Group as a whole a balanced interest rate risk profile through the use of both fixed and floating rate financial instruments.

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

At 31 December 2010	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							
Loan notes	2.3	–	–	–	–	–	2.3
Bonds	–	24.8	100.5	15.1	25.0	379.5	544.9
Obligations under finance leases	1.3	1.1	–	–	–	–	2.4
Foreign currency swaps in relation to US$ denominated bonds	–	(0.1)	(12.4)	(4.7)	–	(98.2)	(115.4)
Callable swaps	–	1.2	6.8	1.0	2.6	25.9	37.5
Floating rate							
Cash in hand	(38.5)	–	–	–	–	–	(38.5)
Overdrafts and bank loans	98.8	–	–	–	–	–	98.8
Investment loan	(1.0)	(2.0)	(2.5)	(3.0)	(3.5)	(24.2)	(36.2)
Assets available for sale	(3.0)	–	–	–	–	(0.7)	(3.7)
Bonds	–	–	–	–	93.9	377.6	471.5
Asset-based securitised financing	11.7	–	–	–	–	–	11.7
Cash flow hedges	5.0	2.8	2.6	1.6	0.8	(1.2)	11.6
Interest rate swap in relation to GBP denominated bonds	–	–	–	–	(4.3)	(0.1)	(4.4)
Foreign currency swaps in relation to US$ denominated bonds	–	–	–	–	(17.5)	(45.6)	(63.1)

26 Financial instruments (continued)

At 31 December 2009	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							
Loan notes	2.6	–	–	–	–	–	2.6
Bonds	–	–	24.1	98.1	13.9	328.4	464.5
Obligations under finance leases	0.1	1.3	–	–	–	–	1.4
Foreign currency swaps in relation to US$ denominated bonds	–	–	0.6	(10.1)	(3.5)	(71.4)	(84.4)
Callable swaps	–	–	1.6	6.4	0.8	22.1	30.9
Floating rate							
Cash in hand	(181.5)	–	–	–	–	–	(181.5)
Term debt	–	198.0	–	–	–	–	198.0
Investment loan	–	–	–	–	–	(36.7)	(36.7)
Assets available for sale	(0.4)	–	–	–	–	(0.3)	(0.7)
Bonds	–	–	–	–	–	256.0	256.0
Asset-based securitised financing	17.1	–	–	–	–	–	17.1
Cash flow hedges	(2.0)	(2.4)	(1.4)	(1.4)	(0.6)	(3.0)	(10.8)
Interest rate swap in relation to GBP denominated bonds	–	–	–	–	–	(3.3)	(3.3)
Foreign currency swaps in relation to US$ denominated bonds	–	–	–	–	–	(51.6)	(51.6)

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
2010	**45/(45)**	**(2.0)/2.0**
2009	16/(16)	(0.3)/0.3

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26 Financial instruments (continued)

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 2010, the Group had cash flow hedges in place against forecast monthly INR costs in 2011 and each year up to and including 2019. These forecast INR costs have been determined on the basis of the underlying cash flows, associated with the delivery of services under signed contracts which run to 2019.

The following table demonstrates the sensitivity to a reasonably possible change in the INR/GBP exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity due to changes in the fair value of the Group's forward exchange contracts.

	Increase/ (decrease) in INR exchange rate	Effect on profit before tax £m	Effect on equity £m
2010	**(0.95)%**	**–**	**(1.7)**
2009	4.06%	–	9.9

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 an interest rate swap in place with a notional amount of £32.0m (2009: £32.0m) whereby it receives a fixed rate of interest of 7.19% (2009: fixed rate of interest 7.19%) and pays a variable rate based on 6 month LIBOR. The swap is being used to hedge the exposure to changes in the fair value of £32.0m (2009: £32.0m) of the Group's 7.19% (2009: fixed rate of interest 7.19%) 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 LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £675.6m (2009: £472.8m) of the Group's bonds, which have coupon rates ranging from 4.15% 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 23).

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

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	2010 Assets £m	2010 Liabilities £m	2009 Assets £m	2009 Liabilities £m
Fair value	**11.6**	**–**	10.8	–

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 2010 and a net unrealised gain of £11.6m (2009: £10.8m) less deferred tax of £3.1m (2009: £3.0m) was recognised in equity. The net gain recognised on cash flow hedges during the year was £2.8m (2009: net loss £10.8m) whilst net gains of £2.0m (2009: £4.1m) 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 £0.2m (2009: credit of £4.2m).

Credit risk

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

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

The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments.

The Group has netting arrangements in respect of its transactional banking facilities resulting in the legal right of set-off for its overdraft and cash balances.

Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed facilities to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, loan notes, overdrafts and finance leases over a broad spread of maturities to 2020.

26 Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments.

At 31 December 2010	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 and bank loans	98.8	–	–	–	–	–	98.8
Loan notes	2.3	–	–	–	–	–	2.3
Bonds	–	23.1	95.5	13.5	108.2	689.9	930.2
Asset-based securitised financing	11.7	–	–	–	–	–	11.7
Obligations under finance leases	1.3	1.1	–	–	–	–	2.4
Currency swaps	–	–	–	–	–	11.4	11.4
Callable swaps	–	1.2	6.8	1.0	2.6	25.9	37.5
	114.1	25.4	102.3	14.5	110.8	727.2	1,094.3

At 31 December 2009	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
Loan notes	2.6	–	–	–	–	–	2.6
Bonds	–	–	22.3	93.9	13.0	538.8	668.0
Term debt	–	200.0	–	–	–	–	200.0
Asset-based securitised financing	17.1	–	–	–	–	–	17.1
Obligations under finance leases	0.1	1.3	–	–	–	–	1.4
Currency swaps	–	–	0.6	–	–	–	0.6
Callable swaps	–	–	1.6	6.4	0.8	22.1	30.9
	19.8	201.3	24.5	100.3	13.8	560.9	920.6

The Group has available to it a Revolving Credit Facility of £425m maturing in 2015, of which £110m had been drawn down as at 31 December 2010 (2009: £nil drawn down). These funds are available for the Group's immediate use.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Group has covenanted to maintain a specified consolidated leverage ratio and a consolidated net interest expense coverage ratio, the terms of which have been adhered to during the year.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Group does not set a target level of gearing but uses capital opportunistically to add value for shareholders. The key discipline adopted by the Group is to widen the margin between the return on capital employed and the cost of that capital as shown in the business review on pages 36 to 37 and 43.

The table below presents quantitative data for the components the Group manages as capital:

	2010 £m	2009 £m
Shareholders' funds	495.5	466.2
Overdraft and bank loans	98.8	–
Cash in hand	(38.5)	(181.5)
Unsecured loan notes	2.3	2.6
Obligations under finance leases	2.4	1.4
Bonds	1,016.4	720.5
Term debt	–	198.0
Currency and interest rate swaps	(182.9)	(139.3)
At 31 December	1,394.0	1,067.9

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27 Issued share capital

	2010 Million	2009 Million	2010 £m	2009 £m
Allotted, called up and fully paid				
Ordinary shares of $2^1/15$p each				
At 1 January	624.6	621.2	12.9	12.8
Issued on exercise of share options	2.9	3.4	0.1	0.1
At 31 December	627.5	624.6	13.0	12.9

During the year 2.9m (2009: 3.4m) ordinary $2^1/15$p shares with an aggregate nominal value of £0.1m (2009: £0.1m) were issued under share option schemes for a total consideration of £15.6m (2009: £15.1m).

Treasury shares	2010 Million	2009 Million	2010 £m	2009 £m
Ordinary shares of $2^1/15$p				
At 1 January	–	–	–	–
Shares repurchased	15.4	–	0.3	–
Shares transferred to Employee Benefit Trust	(0.7)	–	–	–
At 31 December	14.7	–	0.3	–

In 2010, the Group purchased 15.4m ordinary $2^1/15$p shares with an aggregate nominal value of £0.3m at a total cost of £115.7m for which it paid cash at an average cost per share of £7.51. There were additional expenses of acquiring the shares of £0.5m in that year. These shares were transferred from treasury to the Capita Employee Benefit Trust.

Employee Benefit Trust shares

	2010 Million	2009 Million	2010 £m	2009 £m
Ordinary shares of $2^1/15$p				
At 1 January	7.9	10.4	0.2	0.2
Shares transferred from treasury	0.7	–	–	–
Shares allotted in the year	(1.4)	(2.5)	–	–
At 31 December	7.2	7.9	0.2	0.2

The Group will use shares held in the Employee Benefit Trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 1.4m ordinary $2^1/15$p shares with an aggregate nominal value of £0.1m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £4.2m.

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 as follows:

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report on pages 78 to 90) and Matching Shares.

The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

The vesting conditions for matching awards made in 2010 were such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 14% per annum.

The Committee has considered the targets that were set for previous awards made under this scheme and believe in the light of current market conditions and the further challenges that this represents that the vesting conditions for matching awards made in 2011 will be such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

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 the Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme.

Long Term Indexed Share Appreciation Scheme (LTISAS)

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was restated in line with the FTSE All Share Index from the date of grant to 25 November 2007. The restated exercise prices were £3.48 for the 2002 award and £4.74 for the 2004 award. This feature ensured that participants only gained if the share price out-performed 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.

28 Share based payment plans (continued)

1997 Executive Share Option Scheme

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the 3 year vesting period from the date of grant. The contractual life of each option granted is 7 years. There are no cash settlement alternatives.

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at a discount to the market price at the date of grant. The discount is currently nil (2009: nil; 2008: nil; 2007: nil; 2006: nil; 2005: 10% and 20% prior to 2005). The options become exercisable for a 6 month period following completion of a 3 or 5 year savings period. There are no performance conditions attached to these options.

The expense recognised for share based payments in respect of employee services received during the year to 31 December 2010 was £10.2m (2009: £9.8m), all of which arises from equity-settled share based payment transactions.

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)

	2010 Million	2010 WAEP	2009 Million	2009 WAEP
Outstanding as at 1 January	9.8	6.18	14.1	£5.05
Granted during the year	1.7	7.05	2.0	£6.77
Exercised	(3.1)	5.23	(5.5)	£4.11
Forfeited	(0.8)	7.06	(0.7)	£6.28
Expired during the year	(0.1)	3.89	(0.1)	£4.53
Outstanding as at 31 December[1]	7.5	6.6	9.8	£6.18
Exercisable at 31 December	3.1	5.0	2.3	£3.60

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.31 (2009: £7.16).

2008 LTIP

	2010 Million	2010 WAEP	2009 Million	2009 WAEP
Outstanding as at 1 January	3.6	–	1.8	–
Awarded during the year	2.4	–	2.0	–
Forfeited	(0.1)	–	(0.2)	–
Outstanding as at 31 December	5.9	–	3.6	–
Exercisable at 31 December	–	–	–	–

LTISAS

	2010 Million	2010 WAEP	2009 Million	2009 WAEP
Outstanding as at 1 January	1.1	4.74	1.1	£4.74
Exercised	(0.5)	4.74	–	£4.74
Outstanding as at 31 December	0.6	4.74	1.1	£4.74
Exercisable at 31 December	0.6	4.74	1.1	£4.74

The weighted average price of options exercised in 2010 was £7.60.

Under the LTISAS scheme two tranches of 600,000 share options have been issued to each participant in the scheme. Both were deemed to have been granted in November 2002. The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2.16. The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3.51. Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4.11.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £0.9m (2009: £1.5m). The Matching Shares allocation in respect of the 2009 awards under this plan charged in 2010 was £0.5m (2009: £0.5m).

The weighted average fair value of options granted during the year was £2.35 (2009: £2.62). The range of exercise prices for all options outstanding at the end of the year was £2.50 to £7.33 (2009: £2.50 to £7.33).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2010 and 31 December 2009.

	2010	2009
Dividend yield (%)	2.39	2.11
Expected share price volatility (%)	26.00	26.53
Floor price for LTIP (applicable to LTIP 08)	7.20	6.64
Risk free interest rate (%)	1.95	2.25
Expected life of option (years)	3.12	3.12
Weighted average share price of options granted during the year	£2.60	£3.20

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.

[1] Included within this balance are options over 0.1m (2009: 0.1m) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Notes to the consolidated financial statements

29 Additional cash flow information

Reconciliation of net cash flow to movement in net funds/(debt)

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

The aggregate bond fair value above of £1,016.4m (2009: £720.5m) (disclosed in note 23 – Financial liabilities) includes the GBP value of the US$ denominated bonds at 31 December 2010. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the underlying bond fair value. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds.

The combined fair value of the interest and currency swaps, of £182.9m (2009: £139.3m), is disclosed in note 17 – Financial assets, and in note 23 – Financial liabilities.

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

†The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £833.5m (2009: £581.2m).

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

30 Capital commitments

At 31 December 2010, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £0.8m (2009: £8.8m).

31 Contingent liabilities

(a) The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £69.4m (2009: £41.7m).

(b) Further consideration may be due, dependent on certain performance criteria, on acquisitions completed by the Group in 2009 up to a maximum of £8.8m. The Group expects that these payments, if ultimately due, will be satisfied by the end of 2013.

32 Pensions

The Group operates both defined benefit and defined contribution pension schemes. These pension schemes are funded and contributions are made to separate trustee-administered funds. The assets of the pension schemes are held separately from the Group.

The pension charge for the defined contribution pension schemes for the year is £32.6m (2009: £30.9m).

In 2010 there was one main defined benefit pension scheme where the Group is the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: 1 scheme where the Group is the sole employing sponsor; allocated sections of 2 multi-employer schemes in which the Group is a participating employer; an allocated section in an industry wide scheme; and several schemes to which the Group makes contributions under Admitted Body status to our clients' defined benefit pension schemes in respect of certain TUPE employees.

For the Admitted Body schemes, which are all part of the Local Government Pension Scheme, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each schemes' Schedule of Contributions. In addition, for some schemes, the Group will be required to pay any deficit (as determined by the respective Scheme Actuary) that is remaining the end of the contract. In respect of this the Group is carrying a sufficient level of provision in these financial statements.

The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are:

At 31 December 2010	Capita scheme £m	Other schemes £m	Group total £m
Scheme assets at fair value:			
Equities/hedge funds/absolute returns	**348.0**	**96.3**	**444.3**
Bonds	**108.3**	**34.0**	**142.3**
Property	**45.0**	**8.2**	**53.2**
Insurance contracts	**3.0**	**–**	**3.0**
Cash/other	**2.0**	**3.3**	**5.3**
Total	**506.3**	**141.8**	**648.1**
Present value of scheme liabilities	**(505.8)**	**(166.9)**	**(672.7)**
Net asset/(liability)	**0.5**	**(25.1)**	**(24.6)**

At 31 December 2009	Capita scheme £m	Other schemes £m	Group total £m
Scheme assets at fair value:			
Equities/hedge funds/absolute returns	301.7	84.7	386.4
Bonds	103.6	33.4	137.0
Property	13.5	6.4	19.9
Insurance contracts	4.5	–	4.5
Cash/other	27.0	3.8	30.8
Total	450.3	128.3	578.6
Present value of scheme liabilities	(457.1)	(153.4)	(610.5)
Net liability	(6.8)	(25.1)	(31.9)

The pension schemes have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

Notes to the consolidated financial statements

32 Pensions (continued)

The amounts recognised in the consolidated income statement and in the consolidated statement of comprehensive income for the year are analysed as follows:

Year ended 31 December 2010	Capita scheme £m	Other schemes £m	Group total £m
Recognised in the income statement:			
Current service cost	24.4	2.4	26.8
Curtailment gain	(12.6)	(0.8)	(13.4)
Recognised in arriving at operating profit	11.8	1.6	13.4
Expected return on scheme assets	(32.0)	(8.7)	(40.7)
Interest cost on scheme liabilities	26.3	8.7	35.0
Net finance cost included in administrative expenses	(5.7)	–	(5.7)
Total defined benefit charge	6.1	1.6	7.7
Taken to the statement of comprehensive income:			
Actual return on scheme assets	42.9	12.2	55.1
Less: expected return on scheme assets	(32.0)	(8.7)	(40.7)
	10.9	3.5	14.4
Other actuarial losses	(22.2)	(6.3)	(28.5)
Actuarial losses recognised in the statement of comprehensive income	(11.3)	(2.8)	(14.1)

In March 2010 the Group announced that it had made changes to certain sections of the defined benefit schemes by introducing a CARE benefit basis for service after 30 June 2010. The curtailment gain in respect of this change has been recognised in the income statement in the period.

Of the total service cost charge of £13.4m in 2010, £10.4m was included in cost of sales and £3.0m was included in administrative expenses.

Year ended 31 December 2009	Capita scheme £m	Other schemes £m	Group total £m
Recognised in the income statement:			
Current service cost	20.5	2.7	23.2
Past service cost	0.6	–	0.6
Recognised in arriving at operating profit	21.1	2.7	23.8
Expected return on scheme assets	(23.9)	(7.1)	(31.0)
Interest cost on scheme liabilities	20.2	8.2	28.4
Net finance cost included in administrative expenses	(3.7)	1.1	(2.6)
Total defined benefit charge	17.4	3.8	21.2
Taken to the statement of comprehensive income:			
Actual return on scheme assets	75.4	16.3	91.7
Less: expected return on scheme assets	(23.9)	(7.1)	(31.0)
	51.5	9.2	60.7
Other actuarial losses	(106.0)	(12.9)	(118.9)
Actuarial losses recognised in the statement of comprehensive income	(54.5)	(3.7)	(58.2)

Of the total service cost charge of £23.8m in 2009, £18.4m was included in cost of sales and £5.4m was included in administrative expenses.

Pension contributions are determined based on the advice of independent qualified actuaries. The Group made a special additional cash contribution to the Capita scheme of £40m in January 2009 as a result of the outcome of the full formal valuation. This was in addition to a special additional cash contribution of £10m made in December 2008.

Formal valuations of the Capita scheme and the FPS scheme (the other scheme where the Group is the sole employing sponsor) were carried out as at 6 April 2008 and 31 March 2008 respectively. For the other schemes, the latest formal valuations were carried out as at either 31 December 2006 or 31 March 2007. These valuations are updated by independent qualified actuaries at each balance sheet date (also taking account of the provisional valuation results as at 31 December 2009 and 31 March 2010). Scheme assets are stated at their market valuations at each respective balance sheet date.

For the valuation of the pensions in payment and deferred pensions, the impact of the movement from RPI to CPI was considered and no adjustment was required as at 31 December 2010.

The assumption for the expected long term rate of return on assets has been derived by considering the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset was then weighted based on the target asset allocation to develop the assumption for the expected long term rate of return on assets for the portfolio.

32 Pensions (continued)

Main assumptions:	Capita scheme 2010 %	Capita scheme 2009 %	Other schemes 2010 %	Other schemes 2009 %
Rate of price inflation	3.4	3.5	3.4	3.5
Rate of salary increase	4.4	4.5	4.4	4.5
Rate of increase of pensions in payment[1]:				
– inflation capped at 5% pa	3.2	3.3	3.2	3.3
– inflation capped at 2.5% pa	2.2	2.3	2.2	2.3
Discount rate	5.4	5.7	5.4	5.7
CARE active revaluation (inflation capped at 3.5% pa)	2.8	–	2.8	–
Expected rates of return on scheme assets (net of scheme expenses):				
Equities/hedge funds/absolute returns	5.5 to 7.6	5.8 to 7.9	5.5 to 7.6	5.8 to 7.9
Bonds	5.2	5.6	4.6 to 5.4	4.9 to 5.7
Property	4.9	5.1	4.9	5.1
Insurance contracts	5.4	5.7	5.4	5.7
Cash/other	0.9	0.9	0.5	0.5 to 0.9
Expected take up of extended limits of tax free cash due to A day legislation	50.0	50.0	50.0[2]	50.0[2]

Post retirement mortality	Capita scheme 2010	Capita scheme 2009	Other schemes[3] 2010	Other schemes[3] 2009
– Current pensioners	PA92 MC (YOB) rated up 2 years, 0.5% p.a. minimum improvement	PA92 MC (YOB) rated up 2 years, 0.5% p.a. minimum improvement	PA92 MC (YOB) rated up 2 years, 0.5% p.a. minimum improvement	PA92 MC (YOB) rated up 2 years, 0.5% p.a. minimum improvement
– Future pensioners	PA92 MC (YOB) rated up 2 years, 0.5% p.a. minimum improvement	PA92 MC (YOB) rated up 2 years, 0.5% p.a. minimum improvement	PA92 MC (YOB) rated up 2 years, 0.5% p.a. minimum improvement	PA92 MC (YOB) rated up 2 years, 0.5% p.a. minimum improvement

Mortality tables above are independently prepared and published.

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2009	320.2	131.7	451.9
Current service cost	20.5	2.7	23.2
Past service cost	0.6	–	0.6
Interest cost	20.2	8.2	28.4
Benefits paid	(10.6)	(3.3)	(13.9)
Actuarial gains and losses	106.0	12.9	118.9
Contributions by employees	0.3	1.2	1.5
Contract bulk transfers/change in classification of plans	(0.1)	–	(0.1)
As at 31 December 2009	457.1	153.4	610.5
Current service cost	24.4	2.4	26.8
Past service cost	(12.6)	(0.8)	(13.4)
Interest cost	26.3	8.7	35.0
Benefits paid	(12.1)	(4.2)	(16.3)
Actuarial gains and losses	22.2	6.3	28.5
Contributions by employees	0.3	1.1	1.4
Contract bulk transfers/change in classification of plans	0.2	–	0.2
As at 31 December 2010	505.8	166.9	672.7

The defined benefit obligation comprises £672.7m (2009: £610.5m) arising from schemes that are wholly or partly funded.

[1] There are other levels of pension increase which apply to particular periods of membership.

[2] This does not apply to the Admitted Body Schemes where no allowance for the extended limits is taken.

[3] This does not apply to the Admitted Body Schemes.

Notes to the consolidated financial statements

32 Pensions (continued)

Changes in the fair value of scheme assets are analysed as follows:

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2009	317.8	109.6	427.4
Expected return on scheme assets	23.9	7.1	31.0
Contract bulk transfers/business combinations	(0.1)	–	(0.1)
Employer contributions	67.5	4.5	72.0
Contributions by employees	0.3	1.2	1.5
Benefits paid	(10.6)	(3.3)	(13.9)
Actuarial gains and losses	51.5	9.2	60.7
As at 31 December 2009	450.3	128.3	578.6
Expected return on scheme assets	**32.0**	**8.7**	**40.7**
Contract bulk transfers/business combinations	**0.2**	**–**	**0.2**
Employer contributions	**24.7**	**4.4**	**29.1**
Contributions by employees	**0.3**	**1.1**	**1.4**
Benefits paid	**(12.1)**	**(4.2)**	**(16.3)**
Actuarial gains and losses	**10.9**	**3.5**	**14.4**
As at 31 December 2010	**506.3**	**141.8**	**648.1**

The total employer contributions to the defined benefit pension schemes in 2011 are estimated to be £22.2m in respect of the Capita scheme and £16.0m in respect of the 'Other' schemes.

History of experience gains and losses:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Capita scheme					
Fair value of scheme assets	**506.3**	450.3	317.8	350.5	321.4
Present value of defined benefit obligation	**(505.8)**	(457.1)	(320.2)	(330.2)	(328.8)
Scheme surplus/(deficit)	**0.5**	(6.8)	(2.4)	20.3	(7.4)
Experience adjustments arising on scheme liabilities	**–**	–	3.5	–	3.6
Experience adjustments arising on scheme assets	**10.9**	51.5	(92.7)	(4.3)	9.8
Other schemes					
Fair value of scheme assets	**141.8**	128.3	109.6	137.6	122.4
Present value of defined benefit obligation	**(166.9)**	(153.4)	(131.7)	(153.5)	(141.8)
Scheme deficit	**(25.1)**	(25.1)	(22.1)	(15.9)	(19.4)
Experience adjustments arising on scheme liabilities	**(2.2)**	–	28.7	0.1	(3.9)
Experience adjustments arising on scheme assets	**3.5**	9.1	(40.1)	(0.3)	3.5

The cumulative amount of actuarial losses recognised since 1 January 2004 in the consolidated statement of comprehensive income is £105.4m (2009: cumulative actuarial losses of £91.3m). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £77.8m (of which an IFRS transitional adjustment of £67.7m was taken directly to equity) is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the consolidated statement of comprehensive income before 1 January 2004.

33 Related party transactions

Other than the information disclosed in the Directors' report and the Directors' remuneration report – section subject to audit (pages 86 to 90), the only other related party transactions requiring disclosure are details of key management personnel compensation. These details are set out in the table below.

Compensation of key management personnel (excluding Directors of parent company)

	2010 £m	2009 £m
Short term employment benefits	**1.9**	2.5
Share based payments	**0.5**	1.0
	2.4	3.5

Gains on share options exercised in the year by key management personnel totalled £0.8m (2009: £1.1m).

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge:

a) the consolidated financial statements in this report, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole: and

b) the parent company financial statements in this report, which have been prepared in accordance with United Kingdom Accounting Standards (UK GAAP) and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

c) the management report contained in this report includes a fair review of the development and performance of the business and position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

23 February 2011

Independent Auditors' report to the members of The Capita Group Plc

We have audited the financial statements of The Capita Group Plc for the year ended 31 December 2010 set out on pages 92 to 143. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 78. the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 64 to 73 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- the parent company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns;
- certain disclosures of Directors' remuneration specified by law are not made; 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 pages 75 and 76, in relation to going concern;
- the part of the Corporate governance statement on pages 64 to 73 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Oliver Tant (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square
London, E14 5GL

23 February 2011

Five year summary

for the year ended 31 December 2010

Group balance sheet	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Non-current assets	**2,011.6**	1,570.2	1,488.8	1,032.5	862.5
Current assets	**748.7**	801.9	675.5	458.1	404.6
	2,760.3	2,372.1	2,164.3	1,490.6	1,267.1
Liabilities	**(2,207.2)**	(1,857.9)	(1,764.1)	(1,156.2)	(939.6)
Provision for liabilities and charges	**(57.6)**	(48.0)	(3.3)	(2.6)	(1.7)
	495.5	466.2	396.9	331.8	325.8
Capital and reserves	**495.5**	466.2	396.9	331.8	325.7
Minority interests	**–**	–	–	–	0.1
	495.5	466.2	396.9	331.8	325.8
Group income statement					
Turnover	**2,744.0**	2,686.8	2,441.4	2,073.3	1,738.5
Underlying operating profit	**395.1**	357.7	320.9	271.3	225.1
Other operating income/(expense)	**0.9**	0.2	(0.2)	1.2	–
Net interest payable	**(31.8)**	(32.8)	(43.5)	(34.1)	(25.0)
Underlying profit before taxation	**364.2**	325.1	277.2	238.4	200.1
Intangible amortisation	**(41.3)**	(28.1)	(18.6)	(9.7)	(6.9)
Arch cru costs	**–**	(30.0)	–	–	–
Professional fees and stamp duty on acquisitions	**(6.5)**	–	–	–	–
Callable swaps	**(6.6)**	1.1	(32.0)	–	–
Currency swaps	**–**	(2.5)	–	–	–
Loss on business disposal	**–**	(7.5)	–	–	–
Taxation	**(74.8)**	(69.2)	(60.8)	(62.5)	(53.5)
Minority interests	**–**	–	–	–	0.1
Profit after taxation	**235.0**	188.9	165.8	166.2	139.8
Basic earnings per share – underlying	**44.98p**	38.75p	33.26p	28.10p	23.10p
Basic earnings per share – after non-underlying	**38.44p**	30.76p	27.26p	27.09p	22.32p
Diluted earnings per share – underlying	**44.48p**	38.42p	32.96p	27.63p	22.56p
Diluted earnings per share – after non-underlying	**38.01p**	30.50p	27.01p	26.64p	21.80p
Special dividend	**–**	–	–	25.00p	–
Dividend per ordinary share	**20.0p**	16.80p	14.40p	12.00p	9.00p

Company balance sheet

at 31 December 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	5	19.5	21.5
Investments	7	495.7	484.0
Financial assets	6	6.6	8.9
		521.8	514.4
Current assets			
Trade investments	7	0.1	0.1
Financial assets	6	5.0	2.0
Debtors due within 1 year	8	689.1	372.9
Debtors due after more than 1 year	8	162.7	116.1
Cash		–	136.5
		856.9	627.6
Creditors: amounts falling due within 1 year	9	235.6	23.8
Net current assets		621.3	603.8
Total assets less current liabilities		1,143.1	1,118.2
Creditors: amounts falling due after more than 1 year	9	394.5	357.1
		748.6	761.1
Capital and reserves			
Called up share capital	11	13.0	12.9
Employee benefit trust	12	(0.5)	(0.2)
Share premium account	12	454.9	435.2
Capital redemption reserve	12	1.8	1.8
Merger reserve	12	44.6	44.6
Profit and loss account	12	234.8	266.8
		748.6	761.1

The accounts were approved by the Board of Directors on 23 February 2011 and signed on its behalf by:

P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

Company registered number: 2081330

Notes to the accounts

for the year ended 31 December 2010

1 Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts comply with the following new Financial Reporting Standards issued by the UK Accounting Standards Board (ASB).

Amendments to FRS 20: Share based payment: Group Cash-settled Share based Payment Transactions

The amendments expand the definition of a share based payment and are effective for annual periods beginning on or after 1 January 2010. FRS 20 (IFRS 2) has been amended to clarify the accounting for group cash-settled share based payment transactions where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. The amendments clarify that the scope of FRS 20 includes such transactions. The adoption of this amendment has had no impact on the financial statements of the Company.

Improvements to Financial Reporting Standards (2009)

In April 2009 the International Accounting Standards Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments were adopted by the ASB and issued in December 2009. The adoption of these amendments, which are effective from 1 January 2010, did not have any impact on the financial position or performance of the Company.

A separate profit and loss account dealing with the results of the parent undertaking only has not been presented as provided by Section 408 of the Companies Act 2006.

(b) Tangible fixed assets

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost on a straight-line basis over the expected useful lives of the assets concerned, as follows:

Computer equipment	3 to 10 years
Furniture, fixtures and equipment	4 to 5 years
Leasehold improvements	over the period of the lease

(c) Investments

Fixed asset investments are shown at cost, less provisions for impairment.

Investments held as current assets are stated at the lower of cost and net realisable value.

The carrying values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

(d) Pension schemes

The Company maintains a number of contracted-out defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking of the Company, which pays the Group liability centrally. Any unpaid contributions at the year end have been accrued in the accounts of that company.

(e) Leasing commitments

Assets obtained under finance leases are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful economic lives.

The finance charges under finance leases and hire purchase contracts are allocated to accounting periods over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals due under operating leases are charged on a straight-line basis over the lease term.

(f) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, taxation, with the following exceptions:

- provision is made for taxation on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to taxation only where the replacement assets are sold
- provision is made for deferred taxation that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date.

(g) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

(h) National Insurance on share option gains

National Insurance on outstanding share options at the year end has been grossed up and shown as a provision and a receivable on the balance sheet.

(i) Financial instruments: disclosure and presentation

A separate note dealing with the disclosures of FRS 29 has not been presented as provided by paragraph 2D (b) of FRS 29. The consolidated financial statements include the required disclosures of IFRS 7 for the Group.

1 Accounting policies (continued)

(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

	2010 £m	2009 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	(1.6)	(2.0)
Share based payments	4.4	3.9
Cash flow hedges	(3.1)	(3.0)
Callable swaps	10.1	8.7
Provisions	1.3	0.1
Included in debtors note 8	11.1	7.7

3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £182.8m (2009: profit of £167.7m).

4 Dividends

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

5 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2010	32.5	0.8	3.2	36.5
Additions	**2.1**	**–**	**0.1**	**2.2**
Disposals	**(0.3)**	**(0.3)**	**(0.1)**	**(0.7)**
31 December 2010	**34.3**	**0.5**	**3.2**	**38.0**
Depreciation				
1 January 2010	12.3	0.6	2.1	15.0
Charge for year	**3.8**	**0.1**	**0.3**	**4.2**
Disposals	**(0.3)**	**(0.3)**	**(0.1)**	**(0.7)**
31 December 2010	**15.8**	**0.4**	**2.3**	**18.5**
Net book value at:				
1 January 2010	20.2	0.2	1.1	21.5
31 December 2010	**18.5**	**0.1**	**0.9**	**19.5**

6 Financial assets

Current	**2010 £m**	2009 £m
Cash flow hedges	**5.0**	2.0
	5.0	2.0

	2010 £m	2009 £m
Non-current		
Cash flow hedges	**6.6**	8.9
	6.6	8.9

7 Investments

(a) Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2010	484.0
Additions	**13.9**
Disposals	**(2.2)**
31 December 2010	**495.7**

During the year the Company subscribed to 0.7 million £1 redeemable preferences shares at a premium of £5.8m in Capita Group Insurance Company Limited, a subsidiary undertaking. The Company also increased its investment in Capita Group Insurance Company Limited through a £5m contribution for unpaid ordinary share capital.

During the year the Company subscribed to 1 £1 ordinary share at a premium of £2.4m in Capita Fiduciary (UK Holding) Limited, a subsidiary undertaking.

During the year the Company disposed of its investment in Capita Financial Administrators (Gibraltar) Ltd, previously a subsidiary Group undertaking.

Notes to the accounts

7 Investments (continued)

Principal investments	Country of registration and operation	Proportion of nominal value of issued shares held by the company	Description of shares held
Capita Holdings Limited	England	100%	Ordinary £1 shares
Capita Business Services Limited*	England	100%	Ordinary £1 shares
Capita Trust Company Limited	England	100%	Ordinary £1 shares
Capita Commercial Insurance Services Limited*	England	100%	Ordinary £1 shares
BDML Connect Limited*	England	100%	Ordinary £1 shares
Capita Registrars Limited*	England	100%	Ordinary £1 shares
Capita Resourcing Limited*	England	100%	Ordinary £1 shares
Capita Symonds Limited*	England	100%	Ordinary £1 shares
Capita Life & Pensions Limited	England	100%	Ordinary £1 shares
Capita Life & Pensions Regulated Services Limited	England	100%	Ordinary £1 shares
Evolvi Rail Systems Limited	England	100%	Ordinary £1 shares
Service Birmingham Limited*	England	100%	Ordinary £1 shares
ComputerLand UK Limited	England	100%	Ordinary £1 shares
Synetrix Limited*	England	100%	Ordinary £1 shares
Capita IT Services Limited *	England	100%	Ordinary £1 shares
Premier Medical Group Limited*	England	100%	Ordinary 1p shares
National Dental Plan Limited*	England	100%	Ordinary £1 shares
Capita Secure Information Systems Limited* (formerly SunGuard Public Sector Limited)	England	100%	Ordinary £1 shares

The activities of The Capita Group Plc undertakings are given on page 144.

(b) Trade investments

	£m
At 1 January 2010 and 31 December 2010	0.1

8 Debtors

Debtors due within 1 year	2010 £m	2009 £m
Amounts owed by subsidiary undertakings	627.4	323.7
Taxation recoverable	55.9	46.8
Other taxes and social security	–	0.3
Other debtors	2.4	0.7
Prepayments and accrued income	3.4	1.4
	689.1	372.9

Debtors due beyond 1 year	2010 £m	2009 £m
Prepayments and accrued income	3.2	2.1
Deferred taxation	11.1	7.7
Currency swap	144.0	103.0
Interest rate swap	4.4	3.3
	162.7	116.1

*Indirectly held.

9 Creditors

Amounts falling due within 1 year	2010 £m	2009 £m
Bank overdraft	209.5	–
Trade creditors	4.5	2.3
Other creditors	0.2	0.1
Cash flow hedges	–	0.1
Accruals and deferred income	21.4	21.3
	235.6	23.8

Amounts falling due after more than 1 year	2010 £m	2009 £m
Bonds	345.6	325.5
Currency swap	11.4	–
Interest rate swap	–	0.6
Callable swaps	37.5	30.9
Cash flow hedges	–	0.1
	394.5	357.1

The bank overdraft and the bonds are unsecured.

10 Deferred taxation

	£m
At 1 January 2010	(7.7)
New provisions in the year	(3.4)
At 31 December 2010 – included in debtors note 8	(11.1)

11 Share capital

	2010 Million	2009 Million	2010 £m	2009 £m
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each				
At 1 January	624.6	621.2	12.9	12.8
Issued on exercise of share options	2.9	3.4	0.1	0.1
At 31 December	627.5	624.6	13.0	12.9

During the year 2.9m (2009: 3.4m) ordinary 2 1/15p shares with an aggregate nominal value of £0.1m (2009: £0.1m) were issued under share option schemes for a total consideration of £15.6m (2009: £15.1m).

Treasury shares

	2010 Million	2009 Million	2010 £m	2009 £m
Ordinary shares of 2 1/15p each				
At 1 January	–	–	–	–
Shares repurchased	15.4	–	0.3	–
Shares transferred to Capita Employee benefit trust	(0.7)	–	–	–
At 31 December	14.7	–	0.3	–

In 2010, the Company purchased 15.4m ordinary 2 1/15p shares with an aggregate nominal value of £0.3m at a total cost of £115.7m for which it paid cash at an average cost per share of £7.51. There were additional expenses of acquiring the shares of £0.5m in that year. These shares were transferred from treasury to the Capita Employee Benefit Trust.

11 Share capital (continued)

Employee Benefit Trust shares

	2010 Million	2009 Million	2010 £m	2009 £m
Ordinary shares of 2 1/15p each				
At 1 January	**7.9**	10.4	**0.2**	0.2
Shares transferred from treasury	**0.7**	–	**–**	–
Shares allotted in the year	**(1.4)**	(2.5)	**–**	–
At 31 December	**7.2**	7.9	**0.2**	0.2

The Company will use shares held in the Employee Benefit Trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 1.4m ordinary 2 1/15p shares with an aggregate nominal value of £0.1m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £4.2m.

The Company has an unexpired authority to repurchase up to 10% of its issued share capital.

12 Reserves

Company	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Employee benefit trust shares £m	Profit and loss account £m
At 1 January 2010	435.2	1.8	44.6	(0.2)	266.8
Shares issued	**19.7**	**–**	**–**	**–**	**–**
Share transaction costs	**–**	**–**	**–**	**–**	**(0.5)**
Employee Benefit Trust shares purchased	**–**	**–**	**–**	**(0.3)**	**(115.4)**
Share based payment	**–**	**–**	**–**	**–**	**10.2**
Equity dividends paid	**–**	**–**	**–**	**–**	**(109.1)**
Retained profit for the year	**–**	**–**	**–**	**–**	**182.8**
At 31 December 2010	**454.9**	**1.8**	**44.6**	**(0.5)**	**234.8**

13 Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Profit for the year	**182.8**	167.7
Dividends	**(109.1)**	(93.2)
	73.7	74.5
Share based payment	**10.2**	9.8
Shares issued	**19.8**	24.9
Share transaction costs	**(0.5)**	–
Shares purchased	**(115.7)**	–
Net movement in shareholders' funds	**(12.5)**	109.2
Opening shareholders' funds	**761.1**	651.9
Closing shareholders' funds	**748.6**	761.1

14 Commitments and contingent liabilities

(a) Annual commitments under operating leases were as follows:

	2010		2009	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire:				
In 2 to 5 years inclusive	**0.5**	**0.3**	0.5	–
Over 5 years from the balance sheet date	**0.8**	**–**	0.8	–
	1.3	**0.3**	1.3	–

(b) The Company has overdraft and loan facilities of Group undertakings amounting to £425.0m (2009: £245.0m), of which £110m had been drawn down at 31 December 2010 (2009: £nil drawn down).

15 Borrowings

	2010 £m	2009 £m
Bank overdraft payable on demand	99.5	–
Bonds	277.1	277.6
	376.6	277.6
Repayments fall due as follows:		
Within 1 year:		
Bonds	–	–
Bank overdraft payable on demand	99.5	–
	99.5	–
After more than 1 year:		
In more than 1 year but not more than 2 years	24.7	–
In more than 2 years but not more than 5 years	112.9	112.5
In more than 5 years	139.5	165.1
	277.1	277.6
Total borrowings	376.6	277.6

The Company has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005				
Series A	0.525 above 6m LIBOR	GBP	50.0	28 September 2013
Series B	0.525 above 6m LIBOR	GBP	25.0	28 September 2015
Total of sterling denominated bonds			75.0	

			US$m	
Issued 2002				
Series C	6.47	US$**	36.0	20 June 2012
Issued 2006				
Series A	5.74	US$**	60.0	28 June 2013
Series B	5.88	US$**	130.0	28 June 2016
Series A	5.66	US$**	11.0	13 September 2013
Series B	5.81	US$**	74.0	13 September 2016
Series C	5.77	US$**	60.0	13 September 2016
Total of US$ denominated bonds			371.0	

All series are unsecured.

** The Company has entered into currency swaps for the US$ issues to achieve a floating rate of interest based on 6 month LIBOR. Further disclosure on the Company's use of hedges is included in note 26.

Notes to the accounts

16 Related party transactions
There were no related party transactions that require disclosure in the year.

17 Pension costs
The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £1.5m (2009: £1.2m).

18 Share based payment
The Company operates several share based payment plans as follows:

Deferred Annual Bonus Plan
This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report) and Matching Shares. The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

The vesting conditions for matching awards made in 2010 will be such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 14% per annum.

The Committee has considered the targets that were set for previous awards made under this scheme and believe in the light of current market conditions and the further challenges that this represents that the vesting conditions for matching awards made in 2011 will be such that 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

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 the Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme.

Long Term Indexed Share Appreciation Scheme (LTISAS)
The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was restated in line with the FTSE All Share Index from the date of grant to 25 November 2007. The restated exercise prices were £3.48 for the 2002 award and £4.74 for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets.

As growth in the Company's EPS over the 3 year period to 31 December 2006 exceeded RPI growth by 17.6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007.

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards will be made under this plan.

1997 Executive Share Option Scheme
This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the 3 year vesting period from the date of grant. The contractual life of each option granted is 7 years. There are no cash settlement alternatives.

Capita Sharesave Scheme
This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at a discount to the market price at the date of grant. The discount is currently nil (2009: nil; 2008: nil; 2007: nil; 2006: nil; 2005: 10% and 20% prior to 2005). The options become exercisable for a 6 month period following completion of a 3 or 5 year savings period. There are no performance conditions attached to these options.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2010 was £10.2m (2009: £9.8m), 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 £5.9m (2009: £4.0m).

18 Share based payment (continued)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan, LTISAS and 2008 LTIP, which are shown separately).

Share options (1997 Executive Share Option Scheme and Capita Sharesave Scheme)

	2010 Million	2010 WAEP	2009 Million	2009 WAEP
Outstanding as at 1 January	9.8	6.18	14.1	£5.05
Granted during the year	1.7	7.05	2.0	£6.77
Exercised	(3.1)	5.23	(5.5)	£4.11
Forfeited	(0.8)	7.06	(0.7)	£6.28
Expired during the year	(0.1)	3.89	(0.1)	£4.53
Outstanding as at 31 December[1]	7.5	6.6	9.8	£6.18
Exercisable at 31 December	3.1	5.0	2.3	£3.60

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.31 (2009: £7.16).

2008 LTIP

	2010 Million	2010 WAEP	2009 Million	2009 WAEP
Outstanding at 1 January	3.6	–	1.8	–
Awarded during the year	2.4	–	2.0	–
Forfeited	(0.1)	–	(0.2)	–
Outstanding as at 31 December	5.9	–	3.6	–
Exercisable at 31 December	–	–	–	–

LTISAS

	2010 Million	2010 WAEP	2009 Million	2009 WAEP
Outstanding as at 1 January	1.1	4.74	1.1	£4.74
Exercised	(0.5)	4.74	–	£4.74
Outstanding as at 31 December	0.6	4.74	1.1	£4.74
Exercisable at 31 December	0.6	4.74	1.1	£4.74

The weighted average price of options exercised in 2010 was: £7.60.

Under the LTISAS scheme 2 tranches of 600,000 share options have been issued to each participant in the scheme. Both were deemed to have been granted in November 2002. The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2.16. The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3.51. Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4.11.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £0.9m (2009: £1.5m). The Matching Shares allocation in respect of the 2009 awards under this plan charged in 2010 was £0.5m (2009: £0.5m).

The weighted average fair value of options granted during the year was £2.35 (2009: £2.62). The range of exercise prices for all options outstanding at the end of the year was £2.50 to £7.33 (2009: £2.50 to £7.33).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2010 and 31 December 2009.

	2010	2009
Dividend yield (%)	2.39	2.11
Expected share price volatility (%)	26.00	26.53
Floor price for LTIP (applicable to LTIP 08)	7.20	6.64
Risk free interest rate (%)	1.95	2.25
Expected life of option (years)	3.12	3.12
Weighted average share price of options granted during the year	£2.60	£3.20

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.

[1] Included within this balance are options over 0.1m (2009: 0.1m) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Principal Group investments

Capita Holdings Limited
Holding and investment company.

Capita Business Services Limited
Providing an integrated range of business process outsourcing and professional services to clients primarily in the UK and Ireland.

Capita Commercial Insurance Services Limited
Market leader in providing outsourced administration and support services to the general insurance sector and affinity partnerships.

Capita Symonds Limited
Providing a comprehensive range of project management, telecommunications engineering and construction related consultancy services.

Capita Registrars Limited
Share registration and employee share scheme administration services.

Capita Trust Company Limited
Corporate trustees and providers of trust and administration services.

Capita Life & Pensions Limited
Administration and customer services for life and pensions operations.

Capita Life & Pensions Regulated Services Limited
Administration and customer services for life and pensions regulated operations.

BDML Connect Limited
Insurance intermediary and agent for the transaction of insurance business.

Capita Resourcing Limited
Employee recruitment services.

Evolvi Rail Systems Limited
Business travel software provider.

ComputerLand UK Limited
IT services and products provider.

Synetrix (Holdings) Limited
Providing managed, high bandwidth network services.

Capita IT Services Limited
Designing, providing and managing networked computing and communication systems.

Premier Medical Group Limited
Medical services administration provider.

National Dental Plan Limited
Managing and marketing health insurance programmes.

Capita Secure Information Systems Limited (formerly SunGard Public Sector Limited)
IT and communications service provider to the public sector.

Useful 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. Shareholders can receive important information online, including annual and half year reports and notice of meetings. Registering for e-communications also enables shareholders to:

– obtain secure online access to personal shareholding details

– submit queries to our registrars, download forms and obtain general shareholder information

– update shareholding accounts online.

Registering for e-communications is very straightforward. Go to www.capita.co.uk/investorcentre/ecomms

Key dates for your diary

Annual General Meeting 10 May 2011

The AGM will be held at 11.00am on Tuesday 10 May 2011 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: 23 May 2011

Half year results: 21 July 2011

Get in touch

Shareholder enquiries

We aim to communicate effectively with our shareholders, via our website www.capita.co.uk. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual or half year reports should contact Capita's investor relations team on 020 7799 1525 or email: corporate@capita.co.uk.

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Capita Registrars, by email: ssd@capitaregistrars.com or at the address below:

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: (UK) 0871 664 0300

(UK calls cost 10p per minute plus network extras, lines are open 8.30am to 5.30pm, Monday to Friday).

(Overseas) +44 20 8639 3399

Other helpful shareholder services

Share dealing

A quick and easy share dealing service is now available for existing Capita shareholders to either sell or buy more Capita Group 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 8.00am to 4.30pm, Monday to Friday).

If you have only a small number of shares which are uneconomical to sell. you may wish to donate them to charity free of charge through ShareGift (Registered Charity 10528686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

Dividend reinvestment plan (DRIP)

We offer a DRIP to enable shareholders to purchase additional Capita shares with their whole cash dividend. These further shares would be bought in the market on behalf of shareholders under a special low-cost dealing arrangement. Further details of the DRIP can be found online. Please visit the shareholder services section at www.capita.co.uk/investorcentre or call Capita Registrars on 0871 664 0381. (UK calls cost 10p per minute plus network extras, lines are open 9.00am to 5.30pm, Monday to Friday).

International dividend payment service

Capita Registrars has partnered with Travelex to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your bank account, or alternatively, we can send you a currency draft. For further information call Capita Registrars on 0871 664 0385
(UK calls cost 10p per minute plus network extras, lines are open 9.00am to 5.30pm, Monday to Friday).

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