CAPITA

Operating in a fast changing, ever evolving world...

Capita plc Annual report and accounts 2013

Inside this report

There's an ever greater pace of change in society living in an increasingly digital, mobile world...

Central government department budgets expected to fall by 19% in real terms between 2011–2015.[1]

The number of 'looked after children' in England has increased by 12% since March 2009 to 68,110.[3]

Local authorities facing 9% real term budget cuts by 2015/16, alongside pressure to deliver better public services.[2]

In 2013, 36 million adults (73%) in Great Britain accessed the internet every day, 20 million more than in 2006.[4]

The Directors present the annual report for the year ended 31 December 2013 which includes the strategic report, governance and audited Group accounts for the year. Pages 1 to 92 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.

20 million adults will use their mobiles to pay for goods and services by the end of the decade, with the value of purchases tripling from current levels to £14.2bn in 2018.[5]

The number of people aged 65+ is projected to rise by 49% in the next 20 years to over 16 million.[6]

Spend on adult social care in England increased 19% in real terms over the 10 years to 2012/13 to £17bn.[7]

Access to the internet using a mobile phone more than doubled between 2010 and 2013, from 24% to 53%.[4]

[1] National Audit Office.
[2] 2013 Spending Review.
[3] Department for Education, March 2013.
[4] Office for National Statistics, 2013.
[5] Centre for Economics and Business Research, 2013.
[6] Age UK December 2013 and Office for National Statistics 2011.
[7] The Health and Social Care Information Centre (HSCIC) 2013.

Consumers of services are demanding much more, so organisations need to adapt and flex. We have grown our skills and capabilities to help our clients meet these demands...

Improving customer service and retention

Analytics and customer insight are vital to achieving service transformation. We use appropriate data to track behaviours and trends which help to manage customer contact volume, improve customer experience, increase retention and drive sales opportunities and growth. We have enhanced our capability in this area by increasing our specialist resources, for example, the acquisition of Euristix, a data analytics and risk management business.

see page 28

Supporting flexible service delivery

There is a rapid acceleration of online, mobile and social media use by citizens and customers. This presents a significant technical and customer service challenge for organisations to provide a consistent and integrated experience across the growing range of different contact points. We are using our expertise to support this transition across both private and public sectors.

see page 29

Increasing productivity and efficiency

A key part of Capita's proposition is the large scale transfer and management of employees and the delivery of behavioural change. This underpins our ability to create a working environment and culture which motivates employees and maximises productivity, supporting people through change. In 2013, we enhanced our capability with the acquisition of UK based learning and development specialist business, Blue Sky.

see page 28

Working with charities and SMEs

Our suppliers are an important source of new ideas, innovation and specialist skills and in 2013, 64% of our supplier base was comprised of small and medium-sized businesses (SMEs). We aim to use a diverse range of suppliers and recognise that working with smaller, local businesses, social enterprises and third sector organisations makes good business sense.

see page 49

Designing user-centred services

A key element in our service models is to understand the behaviours and motivations of the end-users of the service. As part of all major bids, we undertake customer journey workshops and research and draw on this knowledge to create efficient, quality services which are relevant to those using them.

see page 27

We're enabling our clients to flourish and give their customers the best experience possible. Together we are helping people and organisations thrive now and tomorrow, and this drives our growth…

Department for Work and Pensions (DWP)

We are delivering assessments in central England, Wales and Northern Ireland for Personal Independence Payment (PIP), the new disability benefit that replaces Disability Living Allowance (DLA). PIP helps with some of the extra costs caused by long term ill-health or a disability and is designed to capture the impacts of a person's condition on their daily life. We have worked with claimants, DWP, and a range of charities and disability groups to create a service which ensures that claimants' needs are at the centre of the assessment process.

BMW

Capita has a contract to manage the first customer interaction centre for BMW's prestigious electric car series, BMW i. The Capita team played a fundamental role in the launch of the innovative and industry leading BMW i3 earlier this year, successfully managing over 5,000 customer contacts who have shown an interest in BMW i products. We transformed the customer experience, nurturing customers through the entire buying process with a full range of contact streams including: inbound, outbound, email, letter and webchat.

Fire Service College

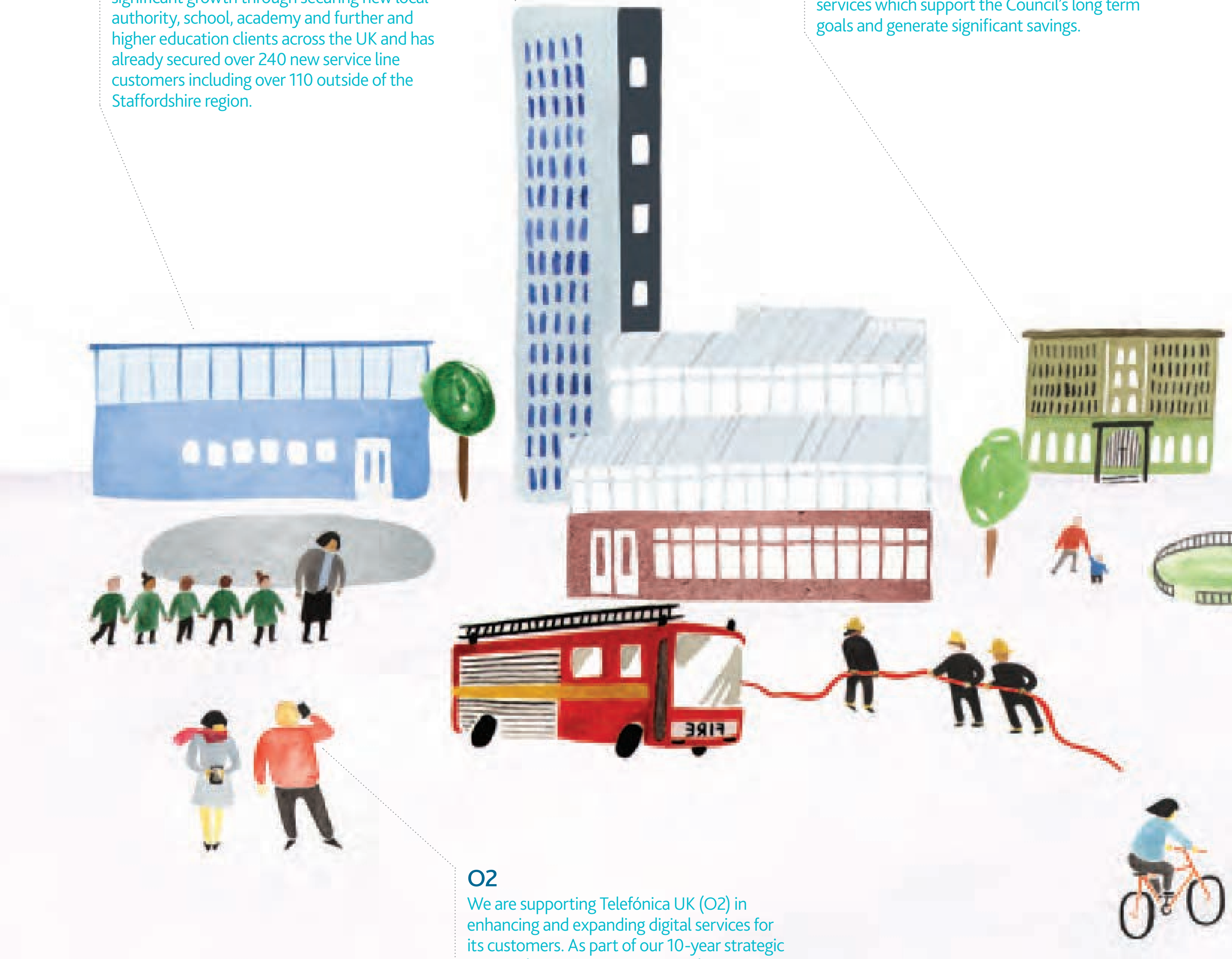
In 2012, we were selected by the Department of Communities and Local Government to take on the Fire Service College (FSC), the UK's largest provider of specialist operational fire and rescue training. We are developing the FSC into a leading-edge training facility, using new technology which will remove the cost and logistical barriers normally associated with staging complex, physical training exercises involving multiple emergency services.
The acquisition of immersion and gamification business, G2G3, is bringing valuable innovation to the FSC.

Staffordshire County Council

We are delivering a full range of educational support services for schools and academies through an innovative partnership, Entrust, with Staffordshire County Council.
Launched in April 2013, Entrust is targeting significant growth through securing new local authority, school, academy and further and higher education clients across the UK and has already secured over 240 new service line customers including over 110 outside of the Staffordshire region.

Southampton City Council

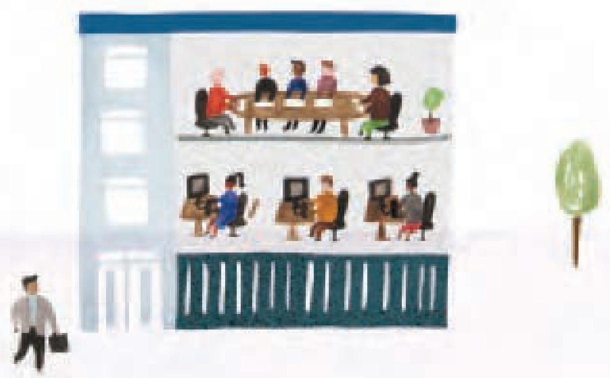
Working with Southampton City Council, we are addressing the changes in the way in which citizens are accessing services. We are introducing the latest innovation in customer management and ICT and providing residents and businesses with increased access to online services which support the Council's long term goals and generate significant savings.



O2

We are supporting Telefónica UK (O2) in enhancing and expanding digital services for its customers. As part of our 10-year strategic partnership, Capita is running and managing O2's customer management centres. We are designing services around customers' evolving needs, introducing new capabilities quickly and ensuring a continued focus on excellent customer experience.

The way that we operate and manage our growth through our consistent business model, drives our financial performance and supports our business goal of delivering long term value to all our stakeholders...



Capita is the UK's leading provider of customer and business process management (BPM) services. We play a key role in our clients' operations, delivering their customer management, administration and professional support services.

This strategic report explores our business strategy and model, and reports on how we are performing against our goal of delivering value to all our stakeholders.

Our strategy in operation

Our **business strategy** is to continuously grow our operations in a controlled manner across all Capita's target markets.

We deliver this strategy through our efficient, profitable **business model** which enables us to deliver effective services for our clients and their customers. Our growth is underpinned by strong leadership and a responsible and robust approach across finance, operations, all our relationships and risk management.

This consistent, disciplined approach to achieving sustainable growth and double digit Group operating margins allows us to meet our **business goal** of delivering value directly and indirectly to all our stakeholders: our clients, employees, shareholders, suppliers and the communities in which we work and deliver services.

Our consistent business model

Business model

Delivering sustainable, profitable growth see page 15

1. Targeting growth markets see page 16
- providing BPM services to 11 diverse markets across the UK public and private sectors

2. Building capability and scale see page 22
- extensive resources, skills and services
- on, near and offshore delivery infrastructure
- enhancing and diversifying via acquisition

3. Creating innovative solutions see page 27
- market leading client responsive solutions
- improving service outcomes and reducing costs

4. Securing organic growth see page 30
- transformational long term contracts providing high visibility of future revenue
- shared service platforms
- single services

Strong leadership and robust processes see page 34

5. Effective controls and risk management see page 35

6. Strong financial discipline see page 40

7. Operating responsibly see page 46

8. Flexible operating structure see page 52

Business goal

Delivering value for all our stakeholders

Clients see page 15

Employees see page 47

Shareholders see page 44

Suppliers see page 49

Communities see page 51

2013 performance

"2013 was a year of strong sales, operational and financial performance. We accelerated our organic growth, sustained good cash generation and are reporting record underlying profits for the 25th successive year."

Paul Pindar*

"The UK market for customer and business process management remains very encouraging with major opportunities broadly spread across both our private and public sector markets. This underpins our confidence in the Group's long term growth prospects."

Andy Parker*

Paul Pindar and Andy Parker

* Paul Pindar retires from Capita plc and the Board on 28 February 2014 and is succeeded by Andy Parker as Chief Executive from 1 March 2014.

2013 highlights

Delivering sustainable growth

- £3.3bn contract wins (2012: £4.0bn) 81% new/19% extensions
- Secured largest ever contract win by annual value with Telefónica UK (O2), £1.2bn over 10 years
- Highest ever contract win rate of two in three (by value)
- Achieved organic growth rate of 8% (2012: 3%)
- £5.5bn bid pipeline (November 2013: £4.2bn), well diversified across our target markets
- £271m[1] spent on 13 acquisitions broadening our operational capability and market reach
- Swift resolution of two underperforming areas within our Insurance & Benefits division

Strong financial performance

- Revenue[2] growth of 15%
- Underlying operating margin[2] of 13.4%
- Underlying earnings per share[2] up 14% to 59.4p
- Total dividend up 13% to 26.5p
- Underlying operating cash conversion ratio[2] of 106% (2012: 110%)
- Underlying free cash flow[2] of £312m (2012: £307m)

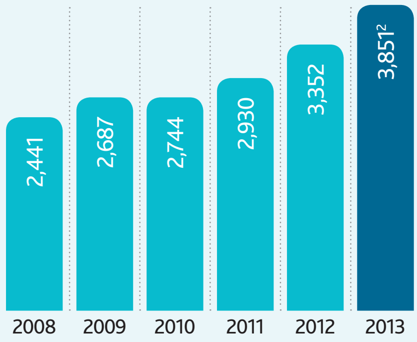
Strong start to 2014

- £588m new contract wins to date including:
  - £145m contract with Transport for London to deliver congestion charging and traffic enforcement schemes
  - £325m framework contract for Scottish Wide Area Network

2013 financial highlights

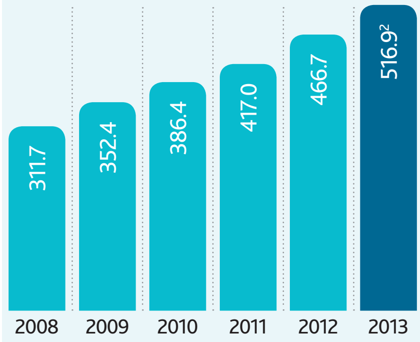
Revenue (£m)

5 year compound growth 10%



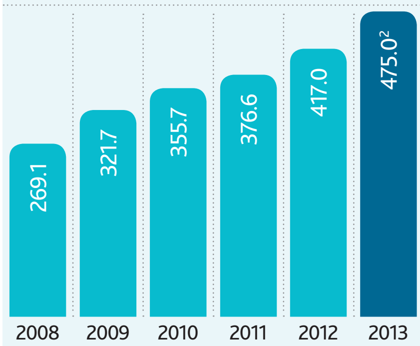
Underlying operating profit (£m)[3]

5 year compound growth 11%



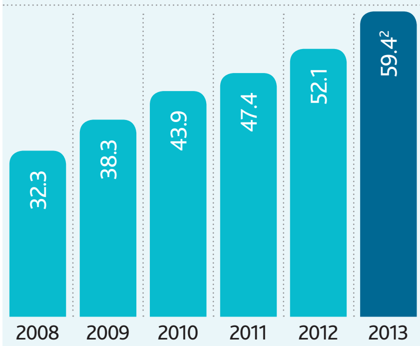
Underlying profit before tax (£m)[3]

5 year compound growth 12%

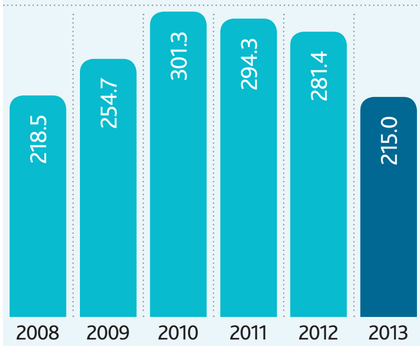


Underlying earnings per share (p)[3]

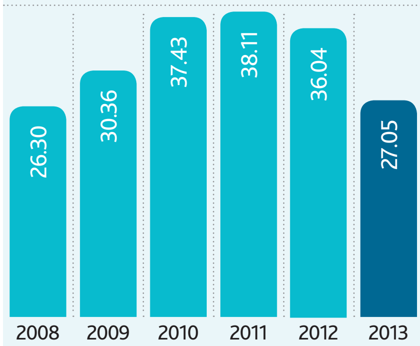
5 year compound growth 13%



Reported profit before tax (£m)



Reported earnings per share (£m)



[1] As previously announced and excludes investment in Axelos, Entrust and Fire Service College (public sector subsidiary partnerships).

[2] On an ongoing basis, 2013 numbers excluding the partial sale of our Insurance Distribution and planned SIP business closure, see note 4 on page 105. 2012 numbers have not been restated on this basis.

[3] Adjusted for new pension standard, IAS19 (R). Excludes non-underlying items detailed in note 5 on page 105.

Overview

2013 was an excellent year for Capita, the UK's leading provider of customer and business process management (BPM). We secured major sales wins of £3.3bn, comprising 81% new business and 19% contract extensions, demonstrating the strength of both our service offering and the buoyant market for outsourcing in the UK and Ireland. We are seeing particularly high levels of activity in the private sector, particularly across utilities, telecoms and financial services, and also in central government and the justice market.

Strong financial performance

In the full year 2013, underlying revenue on an ongoing basis, increased by 15% to £3,851m[1] (2012: £3,352m). Underlying operating profit[2] rose by 11% to £516.9m[1] (2012: £466.7m) and underlying profit before taxation[2] increased by 14% to £475m[1] (2012: £417.0m). Underlying earnings per share[2] grew by 14% to 59.4p[1] (2012: 52.1p). We have increased our total dividend for the full year 2013 by 13% to 26.5p per share (2012: 23.5p).

The majority of our divisions traded well in 2013, with particularly good performance across our Customer Management & International, Workplace Services and Professional Services divisions. Our Property & Infrastructure and IT Services divisions are improving their performance with new management in place and market conditions becoming more favourable.

Our Insurance & Benefits division has borne higher than anticipated expenditure on legacy IT systems. Additionally, as announced in November 2013, we completed the disposal of some of our Insurance Distribution operations and announced the planned closure of our SIP (Self Invested Pensions) administration business based in Salisbury.

During the year, we added further skills and strengthened our position in key target markets through the acquisition of several small to medium-sized businesses. Throughout Capita's history, this acquisition approach has enhanced our major sales propositions and fuelled future organic growth in new and existing sectors. During 2013, we acquired 13 companies for a total cost of £271m[3], in areas including IT and software, debt management, analytics, gamification, change management and learning and development.
see pages 40 to 45

Shareholder returns

Dividends: The Board is recommending a final dividend of 17.8p per ordinary share (2012: 15.6p), making a total of 26.5p for the year (2012: 23.5p) representing an increase for the year of 13%. The final dividend will be payable on 28 May 2014 to shareholders on the register at the close of business on 22 April 2014. Including the proposed final dividend, Capita's total dividend will have grown at a compound annual rate of 13% over the five years to 31 December 2013. Dividend cover is 2.2 times for 2013.

Total shareholder returns: Over the 10 year period to 31 December 2013, Capita has delivered £1.4bn (net of £274m equity raising in April 2012) to shareholders through dividends, share buybacks and a special dividend. Capita's total shareholder return over the same period is 425% compared to 115%for the FTSE 100.[4]

Delivering profitable organic growth

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

2013 was a strong year of sales performance with 17 new and extended major contracts secured worth £3.3bn in aggregate (2012: 35 contracts totalling £4.0bn), representing a two in three win rate for the Group.

2014 has started well with five contracts worth £588m in aggregate secured in January and February, including a five-year contract with Transport for London worth £145m, and a nine-year framework contract to deliver the Scottish Wide Area Network.

Buoyant sales outlook for 2014

Bid pipeline: The pipeline now stands at £5.5bn (November 2013: £4.2bn) and comprises 25 bids across our target markets, with particular activity in the private sector, particularly telecoms and financial services, and in the justice market and the wider public sector. Behind the pipeline is an active prospect list of opportunities, including a number of bids which are expected to reach shortlist stage shortly.

Our bid pipeline contains all bids worth £25m or above, with bids capped at £1bn and where we have been shortlisted to the last four or fewer. We announce the value of the pipeline three times a year and it is therefore a snapshot at a specific point in time.
see page 32

Contract rebids: We have one material contract up for rebid in 2015 (arising from a recent acquisition) and then no further material rebids for the next five years (defined as having forecast annual revenue in excess of 1% of 2013 revenue).

[1] On an ongoing basis, 2013 numbers excluding the partial sale of our Insurance Distribution and planned SIP business closure, see note 4 on page 105. 2012 numbers have not been restated on this basis.

[2] Adjusted for new pension standard IAS19 (R). Excludes non-underlying items detailed in note 5 on page 105.

[3] As previously announced and excludes investment in Axelos, Entrust and Fire Service College (public sector subsidiary partnerships).

[4] Source: Citi.

Major contracts

17 contracts worth £3.3bn in aggregate won in 2013

Contract	Details
Telefónica UK (O2)	A 10-year strategic partnership to deliver customer management services. Building on our existing long term partnership, we will manage O2's customer service centres and support O2 as it enhances and expands its digital service offering. This relationship is worth c£1.2bn and commenced on 1 July 2013.
Cabinet Office/Axelos	Selected by the Cabinet Office to jointly deliver and commercialise the Government's portfolio of project and IT management training tools. The partnership, now branded Axelos, is anticipated to triple current revenues of c.£40m pa by year 10 and became operational from 1 January 2014.
Carphone Warehouse	Contract to provide all Carphone Warehouse's non-store customer contact in a number of different areas across the business and support all aspects of customer service strategy. The contract is worth c£160m over 10 years and commenced on 1 April 2013.
London Borough of Barnet	Contract to deliver development and regulatory services including highways management, planning and development, regeneration and environmental health and trading standards services. The contract is expected to be worth c.£154m over 10 years and commenced on 1 October 2013.
Civil Service Learning agreement	Extension to existing contract with the Cabinet Office, worth at least £60m over two years to end March 2016.
National Asset Management Agency (NAMA)	Appointed as primary and special loan servicer on the NAMA loans acquired under the NAMA Act 2009, previously managed on behalf of NAMA by the special liquidators, Irish Bank Resolution Corporation (IBRC). The contract is worth around £69m over four years.
Department of Energy and Climate Change (DECC)	Selected by DECC for the smart meter communication licence, responsible for the effective overall management, implementation and evolution of the data and communications infrastructure and service. The arrangement is expected to generate revenues to Capita of c£175m over 12 years (with an option to be extended for a further six years).
Ministry of Justice	Selected as preferred bidder for the new electronic monitoring and field support services contract and also the role of overall services and systems integrator. Our assessment is that the contract will generate revenues to Capita of some £400m over the initial six-year contract term, based on the anticipated increase in the use of tags beyond the current numbers of monitored individuals. The new service is expected to start later in 2014 following a mobilisation period.
RWE npower plc (trading as npower)	Secured a partnership to provide both front office customer management and back office services. Capita will take responsibility for part of npower's customer service operation and deliver a business transformation programme that will enhance customer service for npower's domestic business. The contract is expected to be worth c.£120m over seven years and commenced in February 2014.
Southampton City Council	Awarded an extension to our existing 10 year strategic partnership, which originally commenced in October 2007, by a further five years to September 2022. The extension of the contract will generate additional revenue to Capita of approximately £124m.
Major contracts worth between £25m-£50m	We have secured contracts worth a total of £381m, including with the Department for Work and Pensions (DWP), Croydon Council, Scottish Power Energy Retail, University of Strathclyde and the Department of Communications, Energy and Natural Resources in Ireland.

For further details on our contract wins, visit:
www.capita.co.uk

Market update

We operate predominantly in the BPM market in the UK and Ireland, a market with significant growth potential. Having diversified our activities over 11 distinct markets and with a growing private sector footprint, we have an increasing ability to move across our markets to focus on the most active and interesting ones to fuel continued strong growth.

see page 16

Enhancing capabilities and broadening our reach through acquisitions

The strength of our offering is a result of the proactive development of the Group's capability and infrastructure, both internally and through selective acquisition, ensuring that we have the right resources in place to deliver tailored service models for our clients. In 2013, we acquired 13 companies for a total cash consideration of £271m[1]. These organisations are also enhancing our sales propositions, helping to address our clients' challenges and creating further organic growth.

see page 24

Our organisational structure

To further support our clients and the markets in which we operate, we have made some further minor changes to our operational structure for 2014 and from 1 January 2014, we now operate in nine market facing or service specific divisions.

see page 52

Our delivery network now includes 73 multi-service delivery centres in the UK, the Channel Islands and Europe and offshore in India, South Africa and Dubai. By offering onshore, nearshore, offshore or blended service delivery options in a time zone that suits our clients, we can provide maximum flexibility, quality and cost savings in our sales propositions.

see page 22

Our Board and people

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

As announced in November 2013, Paul Pindar steps down as Chief Executive and from the Capita Group Board with effect from 28 February 2014. Paul has played a key role in Capita's successful growth since joining the Company in 1987, including 22 years as Managing Director and Chief Executive. The Board warmly thanks him for his significant contribution to the success of Capita and wishes him all the best for the future.

In line with Capita's senior management succession plan, Andy Parker, succeeds Paul as Chief Executive from 1 March 2014. Dawn Marriott-Sims, formerly Executive Director of Capita's Workplace Services division, was appointed to the Group Board succeeding Andy as Joint COO with effect from 1 January 2014.

Following 10 years as Non-Executive Director, Martina King has decided to retire from the Board in May 2014. The Board thanks her for her strong contribution to the Board and as Chair of the Remuneration Committee and wishes her all future success.

Future prospects

2013 was a year of strong sales, operational and financial performance. We accelerated our organic growth, sustained good cash generation and delivered record underlying profits for the 25th successive year.

As a consequence of the sales successes in 2013 and to date in 2014, along with the acquisitions completed over the previous 12 months, we have excellent revenue visibility and the ingredients in place to deliver continued strong growth in 2014. The UK market for customer and business process management remains very encouraging with major opportunities broadly spread across both our private and public sector markets, as evidenced by our current bid pipeline. Together this underpins our confidence in the Group's long term growth prospects.

> "We have excellent revenue visibility and the ingredients in place to deliver continued strong growth in 2014."

Andy Parker

[1] As previously announced and excludes investment in Axelos, Entrust and Fire Service College (public sector subsidiary partnerships).

Financial KPIs

2013 progress against our principal financial key performance indicators (KPIs)

Key performance indicator	Aim	Context	Progress in 2013
Operating margin[1] see page 40	Maintain steady underlying operating margins	We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective	13.4% 2012: 13.9%
Earnings per share (EPS)[1] see page 41	Achieve long term, steady growth in EPS	Long term growth in EPS is a fundamental driver to increasing shareholder value. Board Directors' incentive schemes have EPS targets to align their interests with those of our shareholders see page 78	59.4p 2012: 52.1p
Free cash flow[1] see page 42	Maintain a high level of operating and free cash flow	We focus on securing timely payment terms and cash conversion underpinned by providing valued services and maintaining an efficient finance operation	£312m 2012: £307m
Capital expenditure see page 42	Contain net 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	3.7% 2012: 2.9%
Return on capital employed (ROCE)[1] see page 43	Achieve healthy ROCE which exceeds our cost of capital	This reflects the margin between the cost of our capital and the returns we generate by investing it. In 2014, Board Directors' incentive schemes have ROCE targets to align their interests with those of our shareholders see page 78	15.5% 2012: 15.8%
Gearing – interest cover see page 43	Maintain a conservative and efficient capital structure, with an appropriate level of gearing	It is important for our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf	12.3x 2012: 9.4x
Economic profit[1] see page 44	Achieve steadily increasing Group economic profit	Group economic profit allows us to assess whether the return generated on the average capital base is sufficient to meet the base return requirements of our investors (debt and equity)	£211m 2012: £207m

[1] Adjusted for new pension standard, IAS19 (R). Excludes non-underlying items detailed in note 5 on page 105 and excludes the Insurance Distribution and SIP businesses 2013.

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

Non-financial KPIs

2013 progress against our principal non-financial key performance indicators (KPIs)

Key performance indicator	Aim	Context	Progress in 2013
Shareholder value see page 44	Steadily grow ordinary dividends (annual growth of total dividends)	Demonstrates the financial health of the business and commitment to creating shareholder value	13% 2012: 10%
Client resources see page 23	Continue to develop our infrastructure of business centres to meet the needs of our business	Reflects the scale and breadth of our offering for clients	73 business centres 2012: 70 business centres
Create successful supplier relationships see page 49	Annually audit all strategic suppliers against Capita's standards of business	A proactive approach to procurement helps us secure best value goods and services, which can improve our performance and that of our clients	100% 2012: 100%
Employee resources – leadership see page 47	Maintain high retention rate for senior managers (divisional directors and senior management teams)	We need to have the right leadership and skills to deliver the Group's long term growth strategy	98% 2012: 96%
Employee resources – skills & flexibility see page 47	Maintain overall employee retention at or above industry average[1]	Our people are vital to our success in delivering high quality, efficient services to our clients	82% 2012: 83%
Controlling our environmental impacts see page 50	Continue to measure and assess our carbon footprint[2] and minimise wherever possible	Although we are a low impact organisation, our aim is to manage and reduce our environmental impacts and use our resources efficiently	110,341 2012: 103,728 (tonnes CO_2 eq)
Supporting our communities see page 51	Continue to grow and measure our community investment annually, using London Benchmarking Group methodology	Our business places us at the heart of the communities that we operate in and positive relationships are therefore vital to the long term health of the business	£1.8m 2012: £1.8m

[1] CIPD 2013 (88.1%) and 2012 (87.3%).
[2] Based on latest available greenhouse gas emissions from Defra.

Delivering sustainable, profitable growth

Through our clear, consistent business model we target the growing customer management and BPM market in the UK. We steadily develop our capability and scale, both internally and through acquisitions. This enables us to provide compelling, valuable propositions to clients across a growing number of sectors and to build a sustainable, profitable business.

We focus on the following key areas, as set out in our business model on page 7:

1. Targeting growth markets — see page 16
2. Building capability and scale — see page 22
3. Creating innovative solutions — see page 27
4. Securing organic growth — see page 30

1. Targeting growth markets

Significant market potential

We operate predominantly in the BPM market in the UK and Ireland, a market with significant growth potential.

In 2013, we commissioned new market research from Ovum, one of the UK's leading independent industry analysts. Ovum estimates that Capita's total addressable market for customer management and BPM in the UK is £126bn per year, of which only £11.9bn was outsourced in 2013 (2012: £11.4bn), 72% in the private sector and 28% in the public sector.

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

Total potential UK customer management and BPM market pa

Potential	**£126bn**

Total UK customer management and BPM market pa

Today	**£11.9bn**
Public sector	28%
Private sector	72%

Diversifying our business

From our entry point in local government in 1984, we have consciously diversified our market reach and now work across 11 distinct public and private markets.

Our business model allows us to swiftly align resources to meet the demands of clients across a wide range of sectors and has helped us to grow from a company with 320 employees and revenue of £25m in 1991 when Capita fully listed on the London Stock Exchange, to a FTSE 100 company with over 64,000 employees and revenue of £3.9bn in 2013.

For the full year 2013, Capita's revenue was split 52% private and 48% public sector. Having been formed initially in the public sector, over time we would expect Capita's revenues to continue to accelerate in the private sector to reflect the respective market opportunity.

Competitive landscape

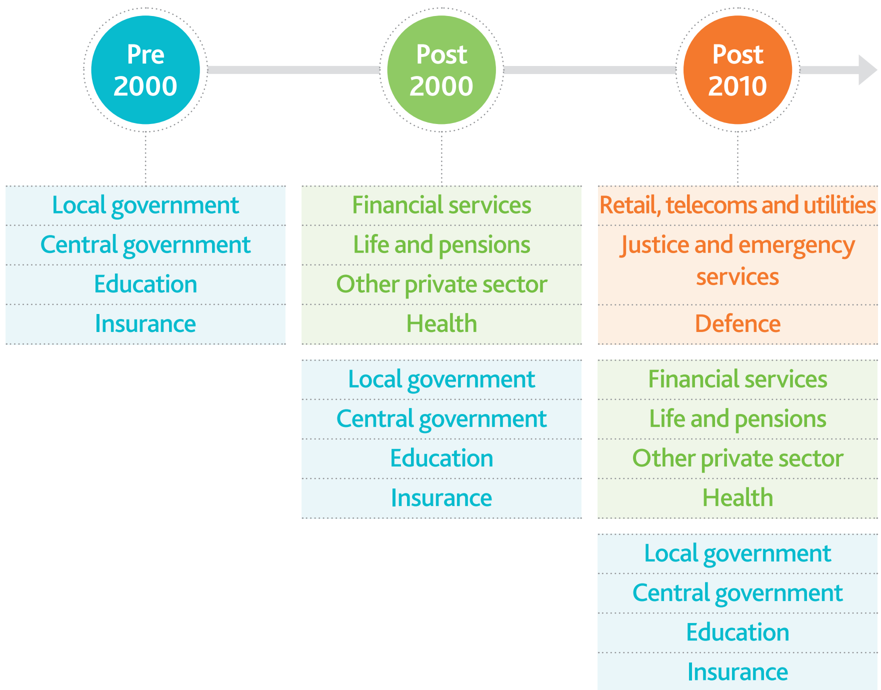
Capita has maintained and grown its market leading position in customer and business process management (BPM) over the past 30 years.

Our market share in 2013 was 24.7% (2012: 23.0%). Our win rate in 2013 has been two in three, clearly beating our long term win rate of one in three, and we achieve this by being very selective regarding the opportunities we bid for and by creating innovative, value added client propositions.

There is a relatively stable list of competitors that operate in the customer and BPM space across our 11 target markets. We have deliberately diversified our markets so that we can maintain a high level of selectivity when assessing sales opportunities and also to enable us to shift our focus at times when any one market becomes quieter.

As we have grown and expanded into new market areas, we are inevitably seeing some different competitors who have historically operated in these markets, for example, in the justice and emergency services, health and in the retail, utilities and telecoms sectors.

Expanding our market reach



Evolution of the BPM market

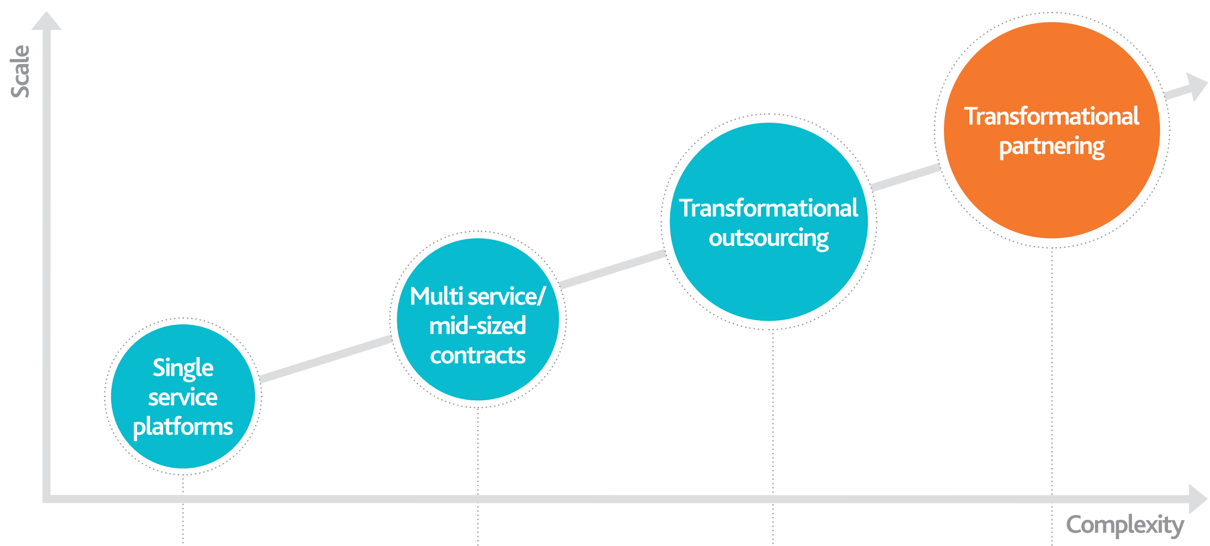
Demographic, legislative and technology changes are creating 'disruption' to the traditional relationships between consumers, citizens and service providers. To meet this rapid pace of social and economic change, organisations must decide how best to allocate resources to optimise and adapt their frontline and back office activities. Outsourcing is increasingly seen as a key enabler to facilitate this change, not only in running a cost efficient operating model but also in adapting and transforming services to meet the changing needs and behaviours of people.

Over the last two years, we have seen some interesting developments in the way in which we are collaborating with organisations to shape real partnership models that help them deliver services which are appropriate over the long term. A significant trend is the evolution of 'transformational partnering' where we are designing and creating delivery models which add value to our private and public sector clients beyond the traditional offering of 'improved service at reduced cost'. Additional client objectives now often include revenue growth, economic regeneration and job creation. Contracts are typically underpinned by a known revenue profile and additionally structured to support shared growth and other targets that benefit both the client and Capita.

We can generally categorise major opportunities into four broad areas, increasing in scale and complexity as we move through the matrix shown below.

We are uniquely positioned to provide differentiated service models which are more compelling to clients and which increase our chances of winning new business. We see our role as helping clients find a clear pathway through the challenges they face and designing and providing the best possible services for them and their stakeholders. Our ability to offer and bid for such a wide range and complexity of contracts is a result of the continual development of our capability and scale, which helps us to move into new sectors and gain competitive advantage.

Evolving client relationships



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

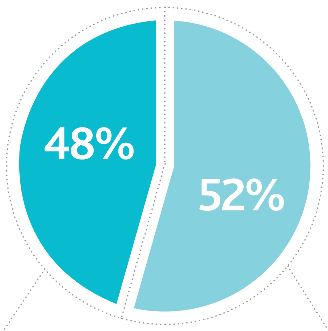
We continually look for changes in sector dynamics across our 11 target markets which may create a catalyst for potential outsourcing opportunities. Our newer market sectors – customer management, defence, justice and emergency services – are showing significant potential alongside our more established market sectors.

The rapid increase in digital communication, including the rise in use of mobile technology and social media, is having a significant impact on the behaviour and expectations of people and consequently our public and private sector clients need to adapt the way in which they communicate and deliver services. Alongside our existing skills, we have enhanced our digital, behavioural science, analytics and change management capabilities both internally and through acquisitions to address this need and help organisations across both sectors to better meet their customers' needs and keep them at the forefront of their markets.

In the private sector, commercial organisations are facing pressure to maintain their competitive position by driving down operational costs and introducing new products and services to market faster, while maintaining high levels of customer service and retention. Changing legislation, for example in the financial services, utilities and banking sectors, is stimulating increased interest in our customer and administration services and we are constantly evolving our propositions to ensure that we can meet these changing requirements.

The public sector is facing many similar dynamics with ongoing pressure to reduce budgets while maintaining and adapting frontline services. Demographic changes, including the ageing population and an increasing number of children in care, are also creating some specific challenges for public sector organisations, particularly local, health and education authorities and they are increasingly looking to the private sector to find new service solutions.

Central government has reduced spend through austerity measures but is still having to seek further transformation change to meet the growing needs of the public sector within ever severe cost constraints. Outsourcing in all its various models is being used to address these challenges, from traditional outsourcing to transformational partnerships. We anticipate that there may be a pause in central government new outsourcing initiatives during the election period in 2015, but we are currently not seeing any slowdown in bidding activity across our key government departments of interest. Local government activity is expected to progress steadily as normal through the election period.



2013 revenue by vertical market

Public sector %	2013	2012
1. Local government	16	18
2. Central government	10	11
3. Education	10	8
4. Health	5	6
5. Justice and emergency services	4	3
6. Defence	3	1

Private sector %	2013	2012
7. Other private sector[1]	21	26
8. Life and pensions	13	17
9. Retail, utilities and telecoms[1]	8	–
10. Financial services	7	6
11. Insurance	3	4

[1] Retail, utilities and telecoms previously reported under other private sector.

Our market drivers

In addition to the general trends detailed on page 19, there are specific drivers and requirements unique to each of our 11 markets.

We are seeing a high level of activity in the **central government** market where contracting to private sector partners is seen as a well established route to improving value for money and reforming frontline services. The Government is expected to save around £1bn in 2015–2016 by centralising the purchase of common goods and services through the Crown Commercial Service[1] and we would also expect to see an increase in pan-government deals managed by the Cabinet Office.

Local government funding is set to fall by a further 9% from £25.6bn in 2014/15 to £23.5bn in 2015/16[1] and local authorities are therefore becoming increasingly commercial and open to exploring new service delivery models. The Government is due to allocate £3.8bn into a pooled budget for health and social care services to work more closely in local areas[1] and this may create demand for specialist skills to support these new challenges. Another trend is the establishment of 'commissioning councils' which are focused on insight-driven service strategy and which tend to be neutral regarding delivery mechanism.

One of the key trends in the **education** market is schools moving outside of local authority control, giving them autonomy in selecting suppliers for educational support services. Additionally, the Government will provide funding for up to 180 new free schools, 20 studio schools and 20 university technical colleges a year to 2015/16[2]. This is coupled with continued financial pressure, for example, the schools budget is due to be cut by a further 1% in 2015/16, in real terms[3] and reforms to higher education funding are expected to generate annual savings of £3bn by 2014/15[1].

Financial pressure in the **health** sector continues to grow with both NHS organisations and local authorities seeking efficiency savings. There is broad consensus that structural changes are necessary to fundamentally transform the way in which services are delivered. The NHS is subject to a quality, innovation, productivity, prevention (QIPP) programme target of £20bn productivity savings by 2014/15[4] and the extension of the 'Nicholson Challenge' efficiency drive from £20bn by 2014–2015 to £30bn by 2020 and £60bn by 2025. Additionally, moves by clinical commissioning groups (CCGs) to procure 'prime contractors' to integrate services for entire clinical pathways and the increased influence that GPs and other clinicians have regarding commissioning decisions for their patients, are driving health providers to look at alternative delivery models.

[1] 2013 Spending Review.
[2] 2013 Autumn Statement.
[3] Ovum 2013.
[4] Department of Health.
[5] National Audit Office.

Police and crime commissioners face the dual requirements of increasing police visibility and reducing costs, with UK police forces required to achieve savings of £2.4bn by 2014/15[3]. The Independent Police Commission has recommended the development of a national procurement strategy co-ordinated jointly by the Ministry of Justice and Home Office. In this context, we see significant potential for collaboration between **justice and emergency services** providers and the opportunity to share/merge back office functions. There is also increasing demand for services under the integration and management (SIAM) framework, replacing traditional ICT managed service bids in some sectors such as central government, local government, justice, education and health.

In the **defence** market, the Ministry of Defence (MOD) plans to upgrade HR, pay, finance and procurement systems by March 2015 and merge its contracting, purchasing, and finance systems during 2015–2016[5]. The MOD is facing further cuts in its core budget for 2013-15 and is exploring the role of private sector organisations to introduce best practice, drive down costs and improve efficiency.

Life and pensions is an increasingly price competitive market with aggregators and 'direct to customer' propositions playing a significant role. Providers are focused on growth opportunities and seeking a 'safe pair of hands' for legacy and complex business. Firms are seeking guidance on recent regulatory developments and how to mitigate the costs of compliance including the Retail Distribution Review and the EU Gender Directive. Automatic enrolment into workplace pension schemes is also increasing costs for providers which they will look to offset through reductions elsewhere.

The highly competitive **insurance** industry is demanding providers to move swiftly in line with changes in customer behaviour and market trends. The complex and rapidly evolving regulatory landscape means that insurers are increasingly focused on improving back-office efficiency. The outsourcing of transactional functions, such as claims handling, to specialist third-parties enables insurers to focus on the delivery of higher-value services.

The Banking Reform Bill due to come into force in early 2014 is likely to significantly increase compliance costs for the wider **financial services** industry, specifically investment and retail banks. There is the potential for outsourcing to play a role in helping organisations to improve operational efficiency and reduce overheads. Retail banks are focusing on quality of customer service as a means of retention and as a differentiator that attracts new customers. Recent IT system failures highlight the reliance on outdated legacy technology at a time when online and mobile banking is increasingly important.

The **retail, utilities and telecoms** market sector is a highly active area for Capita with a number of our major sales wins in 2013 coming from this sector. Across all three sectors, changes in the way in which customers are accessing services is creating significant operational challenges for providers. In retail, increasing competition from online stores is driving change in the market with internet sales now representing 10% of the market. There is also increased recognition that effective, proactive outbound customer service reduces inbound contact and improves customer satisfaction. For utilities, increasing regulation and compliance including the impact of smart metering is driving the need to improve both internal efficiency and customer services. In telecoms, there has been a seismic shift in demand and delivery models to meet changing customer behaviours. Providers are recognising that integrated applications and data increase the ability to up-sell and cross-sell to customers.

Generally across the rest of the **private sector**, we are seeing greater emphasis on customer experience and the role of digital and social media in improving and linking existing channels. There is a focus on customer retention, with many organisations looking to specialist third party providers to deliver improvements in services. Analytics are playing an increasingly vital role in helping organisations employ their resources more effectively and supporting customer retention and sales.

2. Building capability and scale

The strength of our sales proposition is a result of the proactive development of the Group's capability and scale. This ensures that we have the right resources in place to bid for and deliver compelling, cost effective client solutions, whether it's a single service in a specific market or a full transformational partnership combining multiple objectives and services.

We have expanded our capability and scale over the past 30 years via two routes: internal development and through our acquisition strategy of acquiring small to medium-sized businesses.
see page 24

Our internal reporting is essential to this process as it provides a forum for the leaders of our divisions and businesses to share knowledge, skills and ideas across our offering.
see page 35

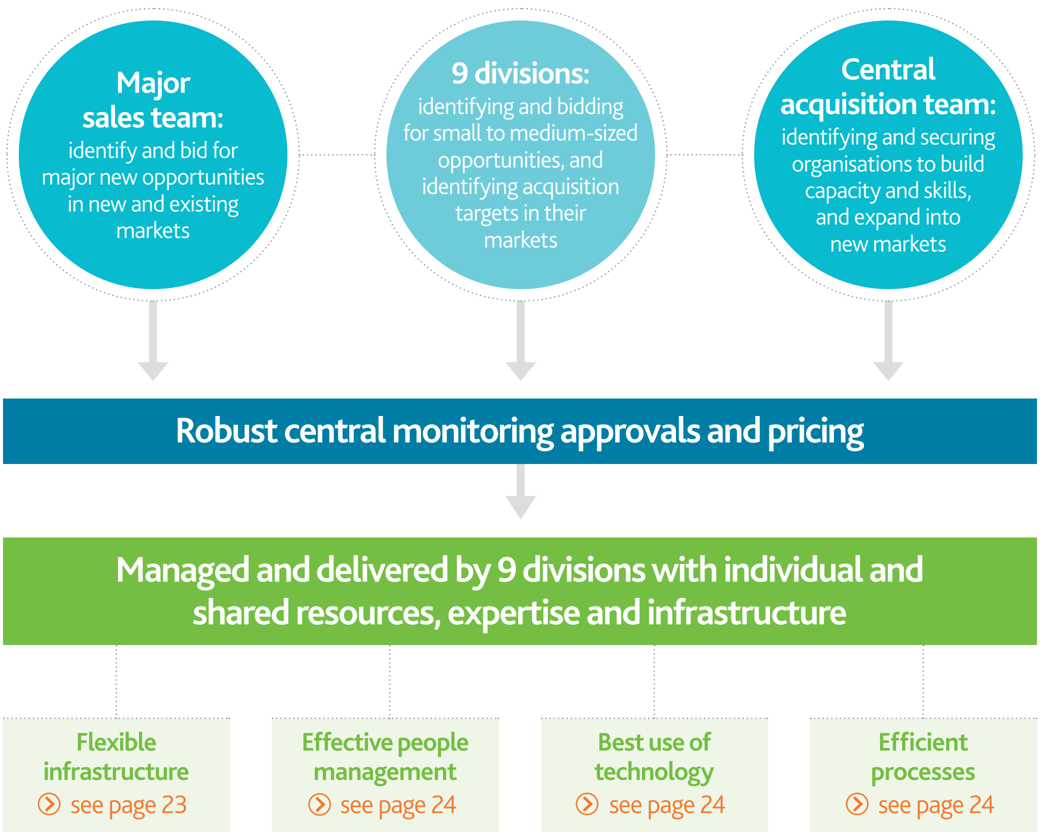
Internal development

The successful integration and delivery of progressively larger contracts, with common processes and substantial numbers of transferring employees, fuels the growth of our operations and expands our resources and expertise.

Across our divisions, we focus on developing a combination of the following core skills and disciplines to deploy into our target markets:

- Flexible infrastructure
- Effective people management
- Best use of technology
- Efficient processes

Fuelling growth organically and through acquisitions



Flexible infrastructure:
leveraging our delivery network

We have c.400 business sites, predominantly in the UK, with a steadily growing network of offices across the world. Alongside this, we have 73 multi-service delivery centres.

We leverage our large scale delivery network which now includes centres in the UK, the Channel Islands and Europe and offshore in India, South Africa and Dubai. By offering onshore, nearshore, offshore or blended service delivery options, in a time zone that suits our clients, we can provide maximum flexibility, quality and cost savings in our sales propositions.

UK, Ireland & Channel Islands

The majority of our 64,000 people are based in the UK, Ireland and the Channel Islands. We have 64 multi-service business centres here. We deliver the full life cycle of services from front end customer management through to back office administration for our public and private sector clients.

India

Our business centres in India, where we employ c.5,000 people, continue to play an integral role in our offshore offering. We now have six centres in Mumbai, Pune and Bangalore delivering a range of services, from simple transaction processing through to more complex knowledge based back office functions.

Poland

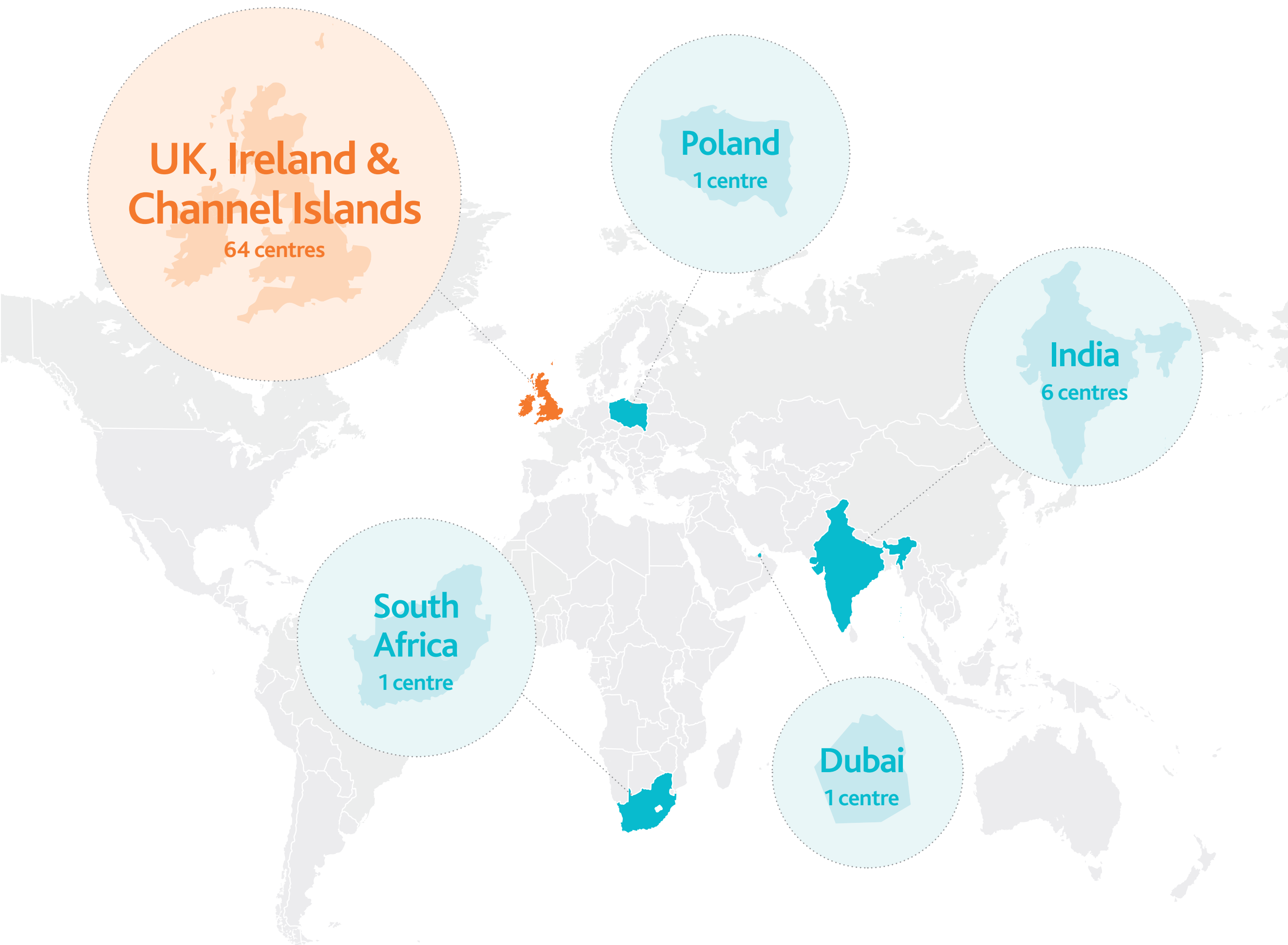
We have continued to invest in and broaden the services we deliver from our central European business centre which we set up in Poland in 2011. This is now fully operational and servicing a number of existing Capita clients in English and other core European languages. The 550 seat capacity centre in Krakow is located close to the city centre and the university with access to a skilled, multilingual workforce.

South Africa

In July 2012, we enhanced our delivery offering through the acquisition of Full Circle, a leading contact centre solutions business based in South Africa and we have approximately 750 full time employees in Cape Town. We are now providing new customer management services for a number of existing clients.

We strongly manage our supply chain across our network of delivery centres.
see page 49

Multi-service delivery centres



Effective people management: harnessing talent and leadership

Our people are critical to our success. It is vital that we have the right skills in place so that we can continue to deliver high quality services for our clients and plan for long term growth. Over 70% of our 64,000 staff have transferred to the Group under TUPE (Transfer of Undertakings, Protection of Employment) regulations demonstrating the depth of our experience of managing complex, large-scale employee transfers.

We track employee retention as one of our key performance indicators. In 2013, our retention rate for senior managers across the Group (divisional directors and senior management teams) was 98% (2012: 96%) and our overall employee retention rate was 82% (2012: 83%).

Succession planning is a key element of our strategy, ensuring that we have the appropriate resources in place to maintain stable leadership. For further details on how we manage and motivate our employees:
see page 47

Best use of technology: leveraging innovation and scale

Effective technology is an essential component of Capita's offering and we therefore continually develop our capability and service offering both internally, through selective acquisition and by establishing niche technology partnerships. To provide maximum flexibility when bidding for new contracts, we have the capability to work with, and enhance, a client's existing technical platforms or we can create entirely new, bespoke systems depending on the desired outcomes. Wherever possible, we migrate and integrate systems onto shared platforms to optimise our infrastructure. Our IT services business provides a full range of services – from off-the-shelf products to full service, on-site solutions for both external clients and other Capita businesses and contracts.

Efficient processes: effective integration and transformation

Our expertise in effectively integrating and improving business processes is a result of our extensive experience and track record of large scale service transformation. We use this to streamline administration and standardise and automate processes, using shared delivery centres and platforms where possible. We continually evolve our capability so that we can support and improve all aspects of a client's back office administration and front office customer management.

We also apply and leverage our own experience as a large organisation, with the associated range of back office functions, in areas such as procurement and property rationalisation. Integral to our offering is our highly efficient operating and financial structure which ensures that we contain our central overhead, helping us to remain competitive while providing added value propositions. We are able to share our knowledge relating to organisational efficiency across market sectors allowing our clients to benefit from prevailing best practice and innovation. For further details on the outcomes we deliver for our clients:
see page 28

Acquisition strategy

Small to medium-sized acquisitions have always played a key role in Capita's growth. We acquire organisations which enable us to enhance our service offering and enter and build capability in new market areas, therefore supporting future sales opportunities. Our acquisition approach is underpinned by strict criteria and this, together with our extensive experience of integrating new companies into the Capita model, ensures that we add real value for shareholders.

We target businesses which:

- Build economies of scale
- Strengthen existing market positions
- Generate sustainable, quality revenues
- Access a new customer base
- Create new market opportunities
- Add complementary capabilities

2013 acquisitions

In 2013, we acquired 13 businesses worth a total of £271m[1], see table below for further details. Over the last three years, we have made a number of acquisitions which have guaranteed positive investment returns through delivering significant organic growth, not only within the existing business but also playing key roles in enabling us to win new major contracts.

The combination of our existing customer management expertise with the purchase of Ventura and Vertex (private sector) in 2011 for a total of £105m, has resulted in Capita securing five new major contracts in the last 18 months including the £1.2bn partnership with O2.

Our £150m investment in eight acquisitions in the justice and secure services area has created a business generating annual revenue of £411m in 2013 and capable of supporting major new contract wins, for example, the electronic monitoring contract with the Ministry of Justice.

Our acquisition pipeline contains a number of interesting opportunities and we anticipate maintaining total acquisition spend of £200m to £250m per annum going forward. With an increased level of organic growth, we therefore expect our acquisition activity to play a proportionately smaller part in our overall revenue growth in future years.

A defined process

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

Stringent due diligence, before and after acquisition, is undertaken at both Group and business level enabling us to achieve clear targets for growth, integration benefits and profit. To stimulate growth and ensure that we can negotiate a sensible purchase price and terms, we generally seek target acquisitions that:

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

Acquisitions

Creating growth through 13 acquisitions in 2013

Capabilities	Acquisition	Rationale	Division	Value £m*
Analytics & gamification	G2G3	Provider of immersion and simulation-based training for industry and the police and emergency services	Justice & Secure Services	3.5 + (10.5)
	Euristix	Provider of data analytics and risk management	Customer Management & International	9.0 + (3.0)
Change management & learning and development	Blue Sky	Provides learning and development solutions for executive level, field-based and contact centre employees	Workplace Services	7.2 + (4.8)
	KnowledgePool	Provider of learning managed services, including supplier management, training and consultancy		24.5
	Creating Careers	Provider of accredited online qualifications for the further education and secondary sectors		24.0 + (6.0)
	Write Research	Provider of research and insight-led resourcing		4.0 + (2.0)
IT & software	MLS	Provider of library and resource management systems to the UK education sector	Professional Services	16.5 + (4.0)
	Northgate	Provides cloud-based, infrastructure and specialist managed services to public, private and third sectors	IT Services	65.0
	STL	Provider of software and ICT to the criminal justice system	Justice & Secure Services	6.1
	Parking Eye	Provider of technology-based car parking services		57.5
Debt management	iQor UK (now branded Akinika)	Provider of outsourced debt collection services to public and private sectors	Customer Management & International	42.0
Specialist consultancy	Cymbio	Specialist consultancy supporting the NHS	Health & Wellbeing	7.0 + (3.75)
	Contact Associates	Provider of a nationwide assessment service enabling disabled students to access specialist support		4.5 + (0.5)

* Value in brackets represents maximum contingent consideration.

[1] As previously announced and excludes investment in Axelos, Entrust and Fire Service College (public sector subsidiary partnerships).

Robust due diligence

We have substantial experience of successfully integrating acquired businesses and contracts into the Group and achieving synergies with our existing operations. Our values and key processes are communicated and implemented right from the start of the integration process. A dedicated project team manages the transition – bringing financial procedures, information, 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.

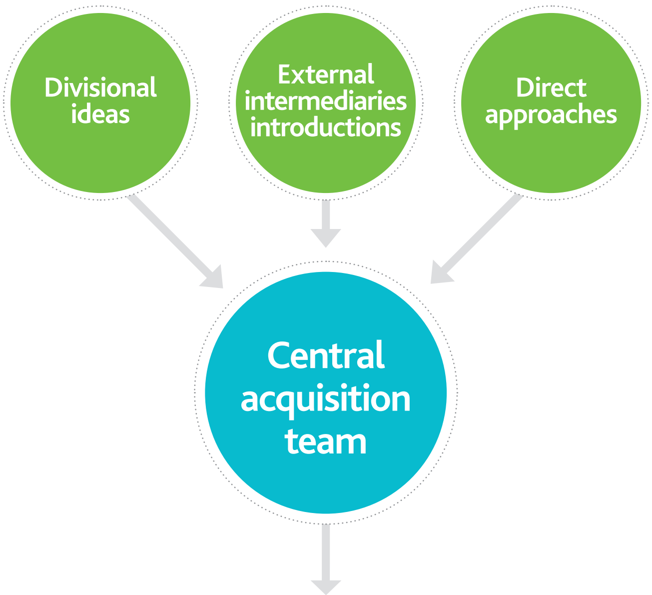
Revenue in the first 12 months of ownership by Capita following acquisition is reported as acquired growth. Post this period revenue is reported within organic growth.

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

2013 disposals

If an area of the business consistently underperforms or is no longer considered integral to the Group, we will undertake a detailed review and dispose or close the business area as appropriate. In 2013, we completed the disposal of some of our insurance distribution assets for an undisclosed sum and decided to close our SIP (Self Invested Pensions) administration business based in Salisbury, see note 4 on page 105 for further details.

Robust acquisition process



Detailed due diligence (inc. finance, legal, HR, risk etc) undertaken centrally and with receiving division

Group Board sign-off

Divisional integration process commences

Continuous performance monitoring as part of MOB process

3. Creating innovative solutions

Responsive service design is central to our major sales offering. Our pool of talented specialists use their skills and experience to develop new and innovative ways of transforming and delivering services, tailored for each individual contract. We design services which are forward-looking and flexible to changing market and social conditions, helping us to add real value to our clients and become an integral part of their operating models.

Our approach: Listen, create, deliver

We maintain open and detailed discussions with our clients throughout the bid process, which allow us to develop an in-depth understanding of their business and challenges. We interact with millions of people in the UK every year and therefore have a deep insight into customer and citizen behaviour. We have enhanced this insight through investment in expertise and tools in behavioural science, analytics, user-centred service design, multi-channel integration and responsive digital services.

Understanding clients' goals and end user behaviour

Whether we are bidding for a government or private sector contract, we firstly seek to understand the current and future requirements of the client and vitally, the end-user of the service. The ways in which citizens and customers access and interact with services, how they make contact, payments and purchases, is a significant determinant of cost, revenue and loyalty for public and private sector organisations. We aim to track and positively influence these behaviours to improve outcomes for both the end users of the service and our clients.

We design and create a service model which will achieve the specific outcomes established during this initial research phase. We also take responsibility for delivering this new service model and running the services under long term contracts, which means that the models we create are grounded in real delivery experience.

During the bid process we identify the operational teams who will be responsible for the contract and transition to ensure that we have the appropriate skills and resources in place to deliver against the agreed plans, whether it's an existing service or a new greenfield contract.

We pull together expertise from across Capita's divisions with skills covering: HR and transition, process re-engineering, operational delivery and technology. Where appropriate, we also work with partners, small to medium-sized companies (SMEs) and third-sector organisations to deliver the agreed goals.

To maintain a positive and engaging relationship with our clients, we continually track performance over time to ensure that we are improving and adding value over the life of the contract.

Delivering valued outcomes

We tailor our service models to fit with the specific outcomes required by our clients, which will typically be one or a combination of the outcomes described below:

Increased efficiency and reduced operating costs

With all our major BPM contracts, we use our scale and expertise to create efficient operating models which optimise resources and support the long term organisational aims of our clients.

We improve administration by switching to more efficient technology, leveraging the Group's existing technical and service delivery platforms and taking out duplicate processes and functions. Where appropriate, we have the ability to migrate and integrate common systems and to rationalise premises, delivering significant cost savings to our clients. We also use our extensive scale to procure services cost effectively and share these cost benefits with our clients.

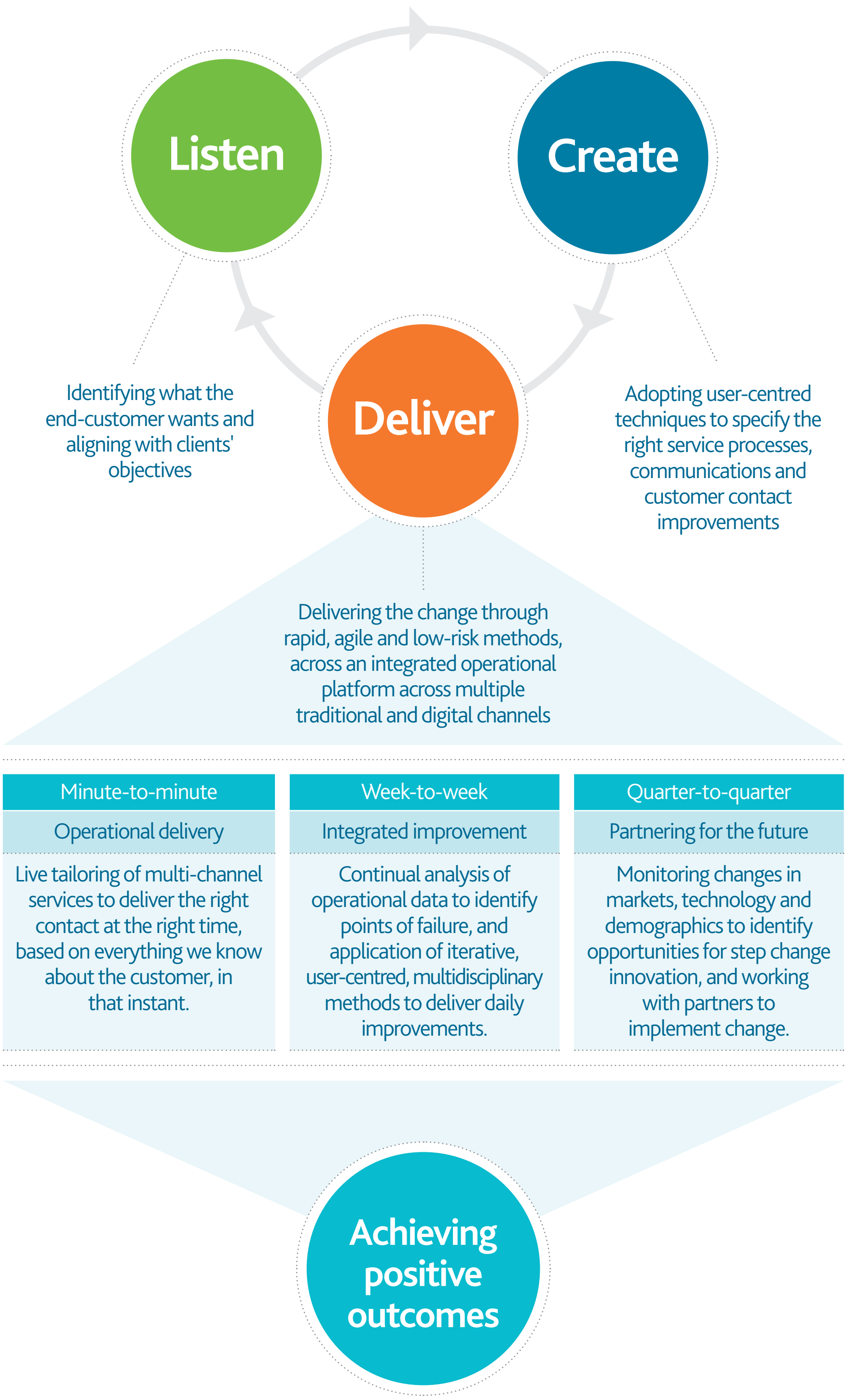
Improved customer service and retention

We support our public and private sector clients in improving the quality of customer services at lower cost – providing citizens and customers with simple, easy to use, personalised and engaging services.

We help organisations in the private sector to drive up customer retention and increase sales with a range of comprehensive analytics that provide a detailed insight into the behaviour and motivation of their end-users. We also use these tools to support our public sector clients to effectively manage contact with citizens, helping them to direct resources to the right areas and protect frontline services.

It is becoming increasingly important for our commercial and government clients to provide sophisticated multi-channel contact points and we continually evolve our capability to ensure that we have the depth of functions necessary to meet their requirements.

Designing and delivering change



Flexible delivery

We offer clients onshore, nearshore, offshore or blended delivery options, over a time frame that suits their organisational objectives, providing maximum service flexibility, quality and cost savings. For some clients, a long term defined contract and cost profile is important to support their long term strategy. Other clients, who face faster decision-making cycles or seasonality, require a greater degree of flexibility, for example, public and private sector organisations that need to be able to swiftly increase or reduce scale in line with fluctuations in demand for services. We can use our shared service centres to support this, both for administration and processing and also customer management needs. For further details on our delivery infrastructure:

see page 23

Benefits from innovation

Simple, easy to use technologies are revolutionising how customers and citizens interact with services, making new demands of service providers to be more agile and responsive. We have developed a multichannel customer experience management toolset that allows us to plug in new social media channels to complement voice and web chat interactions, alongside responsive, user-centred, self-serve mobile and web services. This provides service users with the simplicity and convenience they need in each channel, knitted together into coherent, seamless journeys.

New insight and analytics tools enable the personalisation of each individual contact, not only to improve engagement, but also to target up-sell and cross-sell opportunities for private sector clients and identify unnecessary contact for public sector clients. We look to proactively tackle the causes of customer frustration and preventable and costly customer contact, helping to direct resources to the right areas and protect frontline services. Our extensive experience in service delivery has proven that services which are easy to use deliver downstream savings, in terms of reduced contact and improved loyalty and customer convenience. For details on how we develop our capability and scale:

see page 22

Channel shift and reduced failure demand

We can support clients in transitioning to seamless multi-channel service delivery, covering the whole range of contact points including online, telephone, email, social media, web chat, post and face-to-face. We work with clients to move customers to the most appropriate, low-cost channel to meet their needs. By leveraging our process and customer management experience and analytics, we treat service users as individuals, whether they are consumers or citizens. By improving their experience and perception of the service, we reduce the need for customer service, repeat queries and complaints – the 'failure demand' which is costly for the organisation to process.

Revenue growth

We are increasingly creating partnership delivery models where there is a shared growth objective with our clients. In the public sector, this involves supporting clients in commercialising existing assets in order to deliver a growing revenue stream which benefits both parties. We were selected by the Cabinet Office to jointly develop, deliver and commercialise the Government's portfolio of IT management training tools. For our private sector clients, we can generate additional sales revenue by using targeted customer analytics and sales expertise to increase up-selling opportunities and improve retention. To ensure we are aligned with clients' objectives, we can create financial models which incentivise revenue growth to the mutual benefit of both the client and Capita.

Commercial certainty and reduced risk

For each major BPM contract, we commit to a range of contract specific performance metrics in order to ensure that we are meeting clients' expectations. As a result, clients find that outsourcing actually gives them more control over support operations as they are able to directly measure service costs and outputs.

Supporting wider social aims

Our public sector clients, particularly in local government, face a wide range of social and demographic challenges, including factors such as economic decline, high levels of unemployment, increased levels of children in care and ageing populations. We work with local authorities to create partnerships which can support the achievement of wider social aims, for example, our partnership with Staffordshire County Council secured in 2012 and our contract extension with Southampton City Council, secured in H2 2013.

4. Securing organic growth

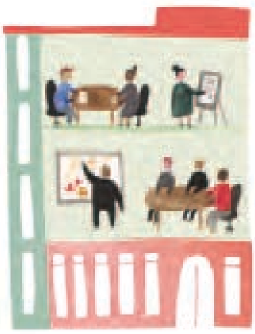
Capita's evolution across a number of markets has enabled us to develop a broad-based services business which generates revenue from multiple clients and contracts across a wide range of diverse sectors.

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

Our revenue profile

Our revenue profile is broadly comprised of:

- Long term multi-service contracts: high quality, recurring revenues delivered from multiple, integrated administration and customer services contracts, with a typical duration of five to 20 years.
- Single services: annual rollover, high repeat rate or secured under medium contracts of two to five years.
- Discretionary spend: additional services for existing clients and/or change control requests
- Transactional activities <10% of revenue: short term projects/contracts for specific work streams.



2013[1] contract wins

Feb

Carphone Warehouse
Value:
£160m
Duration: **10 years**
New

Cabinet Office (Civil Service Learning)
Value:
£60m
Duration: **2 years**
Extension

April

Cabinet Office/Axelos[2]
Estimated revenue:
£400m
Duration: **10 years**
New

May

Telefónica UK (O2)
Value:
£1.2bn
Duration: **10 years**
New + extension

London Borough of Barnet
Value:
£154m
Duration: **10 years**
New

University of Strathclyde
Value:
£40m
Duration: **5 years**
New

[1] For details of the original announcements, visit www.capita.co.uk.

[2] See page 114 for details of our investment in Axelos.

Identifying the right opportunities

Given the long term nature of major contracts, it is essential for us to pursue only those relationships that can both meet clients' expectations and generate reasonable returns for Capita. This high level of selectivity, along with our bespoke client solutions, underpins our long term win rate of between one in two and one in three. In 2013, our win rate was two in three.

We continue to look for:

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

2013 major sales update

Capita reported another strong year in 2013 securing 17 new major contracts worth a total value of £3.3bn, comprised of 81% new business and 19% renewals. Contracts were spread across our target markets, with particular success in central government, including justice, and in the private sector where we secured a number of new customer management contracts.

We have reported an organic growth rate of 8% for the full year 2013 (2012: 3%) as a result of the incremental revenue from new contracts secured in 2012 and revenue from the 2013 wins which commenced during the year. See our finance review on page 40 for further details on our financial performance.

Aug

Ministry of Justice Electronic Monitoring
Estimated revenue:
£400m
Duration: 6 years
New

Department of Energy and Climate Change Smart metering
Value:
£175m
Duration: 12 years
New

NAMA
Value:
£69m
Duration: 4 years
New

Nov

Southampton City Council
Value:
£124m
Duration: 5 years
Extension

npower
Value:
£120m
Duration: 7 years
New

Actively replenishing our pipeline

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

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

Creating the right bid team

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

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

see page 35

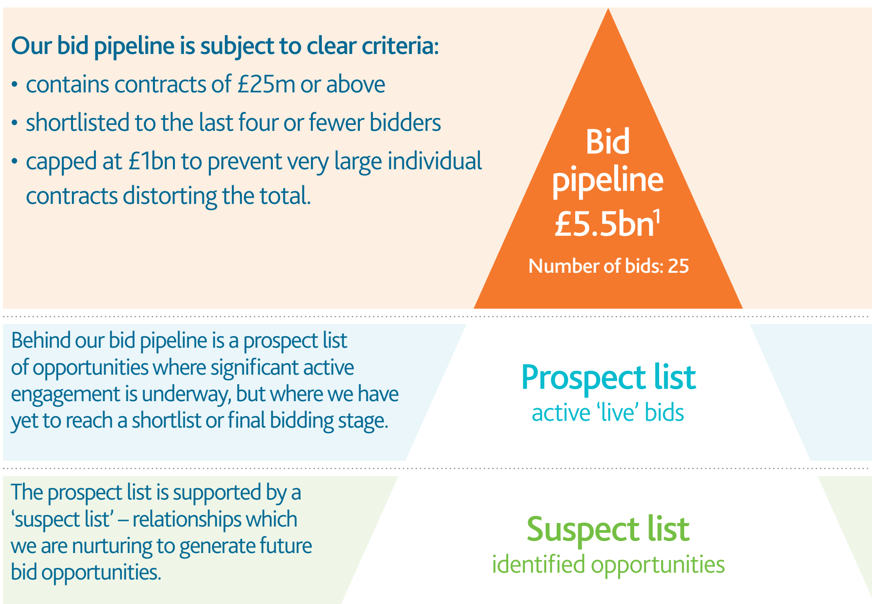
Procurement process

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

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

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

Fuelling organic growth



[1] February 2014.

Securing appropriate pricing and contract terms

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

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

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

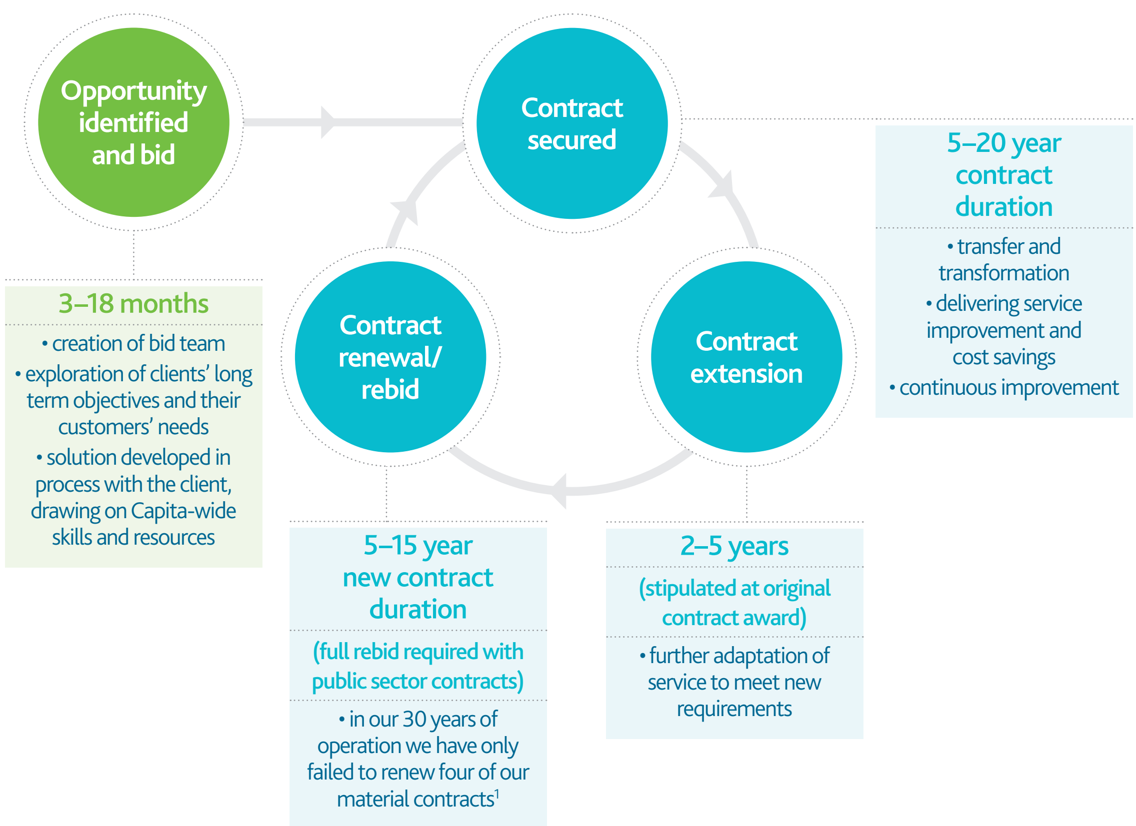
Our track record in accurately pricing contracts enables us to offer clients sensible and realistic proposals while robustly managing and mitigating risk. Once agreed, the terms of our contracts are fixed which means we have a good view of stable, long term revenues.

Retaining and expanding contracts

As well as securing new business from new clients, we work to renew or expand existing client relationships. By achieving operational excellence, we often secure additional business from clients and we achieve high retention rates as contracts come up for renewal. Over the last 30 years, we have only failed to renew four of our material contracts (defined as having forecast annual revenue in excess of 1% of the previous year's revenue). These include the London Congestion Charging Scheme, which we re-won in January 2014, and the contract to administer the Disclosure and Barring Service (previously CRB) which we continue to deliver. We have one material contract up for rebid in 2015 (arising from a recent acquisition) and then no further material rebids for the next five years.[1]

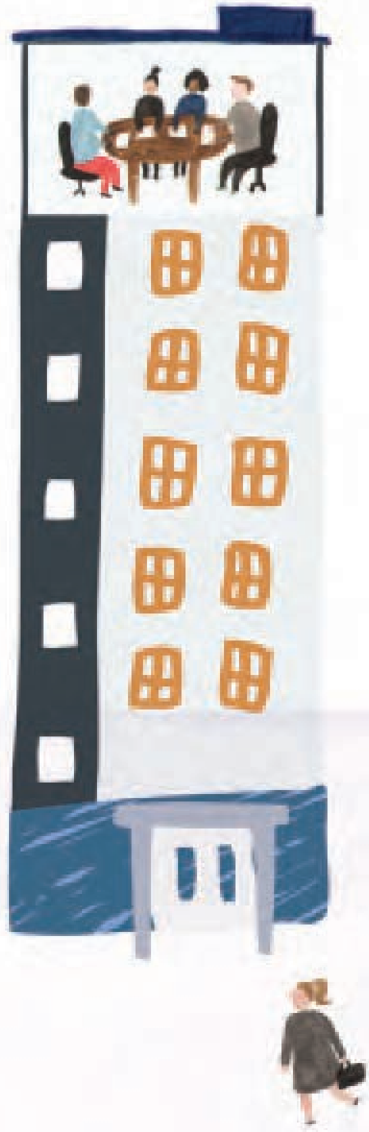
For further details relating to our contract wins, visit the media and investor centres at:
www.capita.co.uk

Typical major BPM bid and contract life cycle



[1] Material contracts: defined as generating more than 1% of previous year's revenue.

Strong leadership and robust processes



A key element in Capita's business model is the approach we take to managing and nurturing growth. Strong leadership and robust processes across finance, risk management and operations are embedded in our reporting mechanisms and employee culture.

We focus on the following key areas, as set out in our business model on page 7:

5. Effective risk management — see page 35
6. Strong financial discipline — see page 40
7. Operating responsibly — see page 46
8. A flexible operating structure — see page 52

5. Effective controls and risk management

Managing our business

Our flat management structure and governance procedures promote accountability and knowledge sharing across the business. This is underpinned by a straightforward and pragmatic divisional structure which encourages entrepreneurship and ensures optimum service delivery for all our clients.

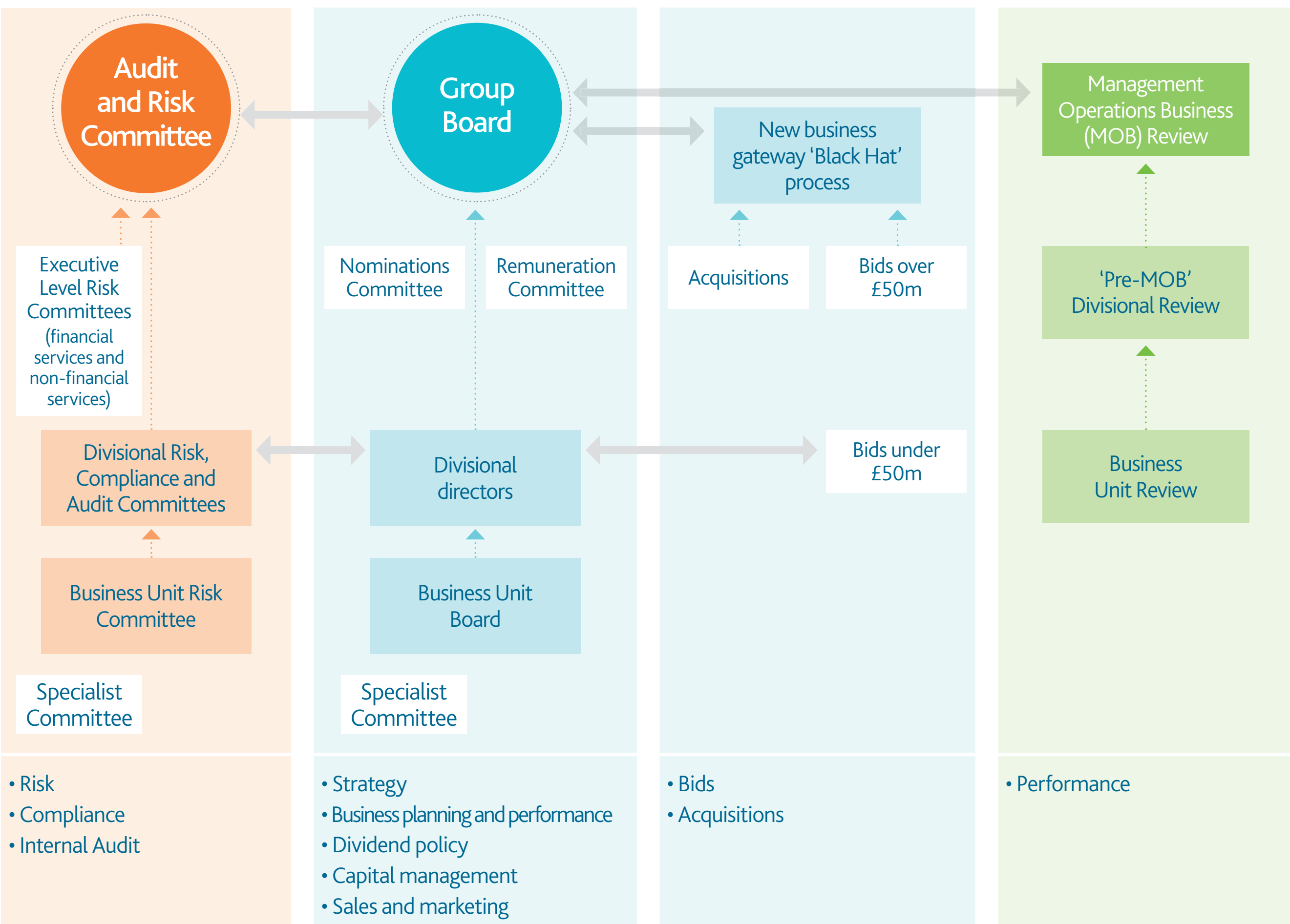
Our monthly financial and operational reporting process – the Management Operations Business (MOB) reviews is the formal channel for this and we also encourage more informal collaborative behaviours through our day-to-day reporting, team working mechanisms and our incentive structures.

Robust, straightforward structure

2013 has seen Capita continue to grow and diversify its operational and regulatory footprint. In addition, the outsourcing sector has seen increased scrutiny by stakeholders of our ability to deliver on contractual obligations. We continue to successfully operate our business, track our performance and manage the risks arising through our Capita-wide management and governance structures.

Our approach is to provide all levels of management with a clear line of sight to, and responsibility for, the performance of their particular business, development of market opportunities and management of the key risks. These structures develop over time and 2013 has seen further enhancements put into place. The core approach and objective remains the same: to underpin the success of the businesses as a whole while promoting a culture of transparency and responsibility at every level.

Management and governance structure



Business management

Capita sets an overall Group business plan based on the Board's strategic direction and risk appetite, together with the input of the divisions who remain close to their markets and better understand the challenges and opportunities within them. This is mirrored in the approach to acquisitions – some will be originated as targets by divisions to augment their propositions, some will be originated by the Executive Board as part of a more strategic direction for Capita.

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

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

Performance management

Alongside overall business management described above, Capita operates a focused performance management process – the Management Operations Business (MOB) review – on a monthly basis.

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

The main MOB meetings are between individual divisional directors and the Executive Board. A consistent reporting format allows the Executive Team to understand financial performance and projected outturns, key business opportunities and risks.

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

Risk management

It is our policy to observe high standards of integrity and fair dealing in the conduct of our business and to act with due skill, care and diligence.

Taking and managing appropriate levels of risk is an integral part of all our business activities. Risk management, performed rigorously and comprehensively, creates stability, contributes to business success and growth and is a key element of operational management. It also provides the framework for the management of business and operational risk in the performance of Capita's activities, to meet the requirements of good corporate governance and protect the interests of our clients and stakeholders.

Capita's business model is 'decentralised' and our approach to risk management mirrors this. It is the responsibility of management at all levels of the organisation to ensure that risks are understood and appropriately managed in accordance with the Group Risk policies and within the Board's risk appetite. This is in line with the standard 'three lines of defence' model that has been adopted.

Control functions

Group Risk and Compliance: maintains appropriate risk management policies and frameworks on behalf of the Group Board and provides oversight for the implementation and execution of those policies. It also acts as a co-ordination point for our business level compliance activities and provides strategic leadership in our relationships with our various regulatory authorities. The Group's risk and compliance director has an administrative reporting line to the Group finance director. The main conduit for reporting is to the Audit and Risk Committee and the Executive Risk Committees. The director also has access to all members of the Board and holds regular meetings with the executive and divisional directors. The director also regularly meets the Audit and Risk Committee Chairman and non-executive directors.

Group Internal Audit: provides the Board, the Audit and Risk Committee and all levels of management with an objective opinion on the results of its reviews. Its role is to review the adequacy and effectiveness of the Group's governance, processes, controls and risk management in implementing agreed strategies as defined by the Board. The Audit and Risk Committee approves the Group internal audit plan and may review any aspect of its work. Group Internal Audit reports regularly to the Audit and Risk Committee and the executive risk committees on significant issues, risks and themes arising from its work together with a summary of management's progress in implementing its recommendations. For administrative purposes, the Group Internal Audit function reports to the Group finance director. Group Internal Audit has free and full access to all activities, records, properties and employees throughout the Group in the course of its work. The Group internal audit director has regular meetings with the Chairman of the Audit and Risk Committee.

Divisional Risk and Compliance: supports divisional and constituent business unit management with their risk management activities. Teams vary in size dependent on the division's inherent risks – financial services businesses being examples where more developed teams operate – but all operate within their own divisions with 'escalation' reporting lines to the Group's risk and compliance director.

Towards the end of 2012, we unified Capita's risk and compliance functions to provide a single focus at Group level over our management of risk. As that combined function developed, it highlighted a requirement to refresh our Group-wide risk framework which had been substantively in place since 2009. Since its introduction and adoption, Capita has grown significantly both in size but, most importantly, in the diversity of its operations.

During 2013, we commenced a programme to refresh our overall risk management framework to better support the ongoing development of the business. The key principles have already been signed off by the Group Board and will be completed during 2014. These key design principles include:

- further development of divisional risk capacity and competency
- consistent and universal approach to managing risk across a diverse group
- focus on information for decision-making
- a broadened horizon of the potential exposures faced by Capita and the impact these have on the business
- emphasis on the authority and remit of the framework
- ensuring relevance of framework to business structure and inherent risk profile.

2014 will see the continuation of this development and roll out to the wider business.

Our risk appetite

Risk appetite, as defined by the Capita Board, is the degree of risk the Company is prepared to accept in the pursuit of its objectives before specific action is deemed necessary to reduce it. In other words, our risk appetite is an important element in setting and applying business strategy across Capita and making key business decisions. It does not operate in abstract from day-to-day business management.

Capita currently has a Group Risk Appetite Statement in place but through the risk framework refresh, this is being further developed to provide more clarity on appetite around:

- strategic objectives – including business model, reputation and integration risks
- financial and reporting objectives – including financial, business and disclosure risks
- operational objectives – including customer delivery, duty of care, resilience and change risks
- compliance objectives – including legal, regulatory and contractual risks.

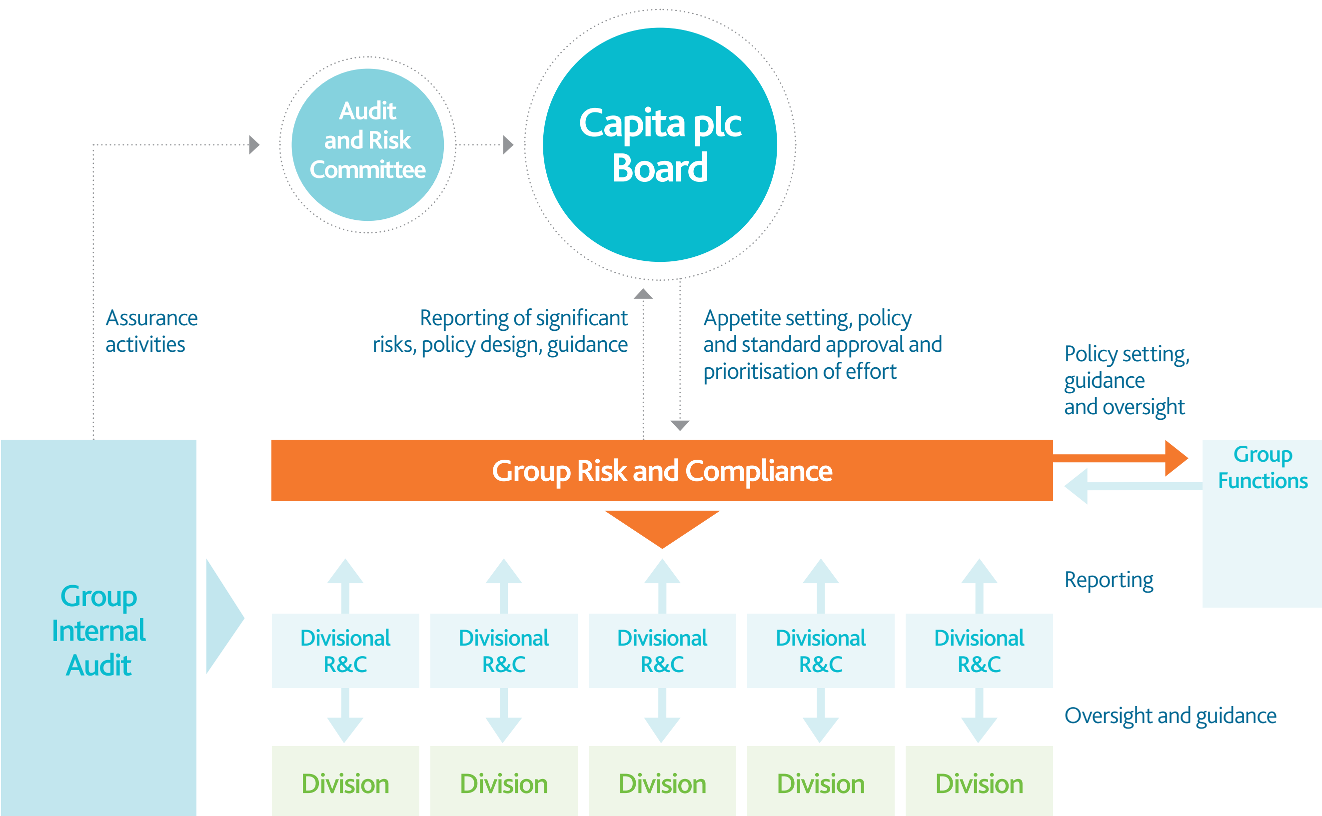
Managing our bids and acquisitions

Capita has grown significantly since its formation through a combination of contract wins and targeted acquisitions. The Board has always accepted that the rate of growth is itself a risk and that the appropriate identification and assessment of strategic, operational, financial and regulatory risks arising from each transaction has an important role in protecting the Group.

In all contracts and acquisitions there will be 'Black Hat' reviews where management (divisional and/or executive depending on size of deal) undertake a structured assessment to consider the pricing and risk profile. Group control functions are standing invitees to these to ensure key risks are given an appropriate discussion.

The measure of the effectiveness of this approach is not just the success of the contract wins and acquisitions completed, it is also in the contract bids or acquisitions we choose not to proceed with for commercial or risk reasons.

Developing our risk management framework



Principal risk categories

Potential impacts, examples of mitigations and developments in 2013

Key risk categories	Potential risks and impacts	Mitigating activities include	2013 developments
Financial exposure	• Adverse effect on business financial performance from e.g. mispricing long term contracts, client disputes or changing market landscape • Adverse investor impact and detriment • Impact to brand reputation.	• Strong financial controls operated by unified finance structure • Assurance provided by Group Internal Audit (GIA) • Monthly finances reviewed in MOB • Capital expenditure is subject to rigorous approvals and monitoring • 'Black Hat' process across significant bids and acquisitions .	• Greater stakeholder interest in robustness of controls • Increased use of GIA to provide assurance • New procurement processes rolled out to strengthen current expenditure control • Disposal of some of our insurance distribution businesses and closure of our SIP (Self Invested Pensions) administration business, see page 105.
Partnerships/ third party	• Contractual dispute with client firms • Reputation risk • Potential financial loss to Capita • Potential disruption to supply chain and service interruption.	• Review of key third party contracts by commercial teams • Monitoring of key outsourced services SLAs • Group Outsourcing (Material Suppliers) Policy • Individual business unit risk reviews • Partnership governance.	• Strengthening of Material Supplier Policy and adoption Group-wide • Increased regulatory (FCA) focus on outsourced services • New partnerships (London Borough of Barnet, Staffordshire County Council, Cabinet Office) and go-live of RPP.
Client delivery	• Failure to meet contractual terms, mobilisation milestones and service level agreements in major contracts • Client service financial penalties • End customer detriment • Potential loss of contracts • Liabilities for actions of third parties • Impact to brand reputation.	• Operating performance indicators in place for all businesses and key contracts • Robust contractual and governance mechanism for management for third parties • Risk Committees and MOB challenge and oversight • Risk-based independent assurance (GIA) • Business resilience arrangements to protect key services • Incident support by internal PR team.	• Increased regulatory focus on 'conduct risk' – delivery of end customer outcomes • Greater stakeholder scrutiny in public sector contracts • New operating frameworks finalised for insurance businesses • Development of new risk framework includes 'customer delivery' risk.
Bids and acquisitions	• Planned synergies failing to achieve financial targets • Detrimental impact on growth and performance of business • Integration challenges resulting in higher operational risks (e.g. data security, customer delivery) • Mispricing of long term major contracts • Impairment of goodwill and intangible assets through underperformance or unforeseen developments in acquired businesses.	• Strong financial controls operated by unified finance structure • Due diligence on financial, operational, market and risk matters, often using external advisers • 'Black Hat' governance process • Group Board review and approval of acquisitions and significant bids • Commercial and contractual terms closely reviewed to ensure clarity • Integration and transition process.	• Changes in legislation extend historic liability reach, e.g. acquired liability risk in anti-bribery and corruption and data security • 2013 acquisitions and contracts have extended regulatory footprint • Implementation of Group Due Diligence and Integration Policy across all Capita businesses • Strengthening of Group risk and compliance oversight of non-financial service deals.
Economic and market landscape	• 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 • General Elections may cause a pause in bid decisions in central government.	• Focus on 11 diverse public and private sector markets • Focus on widening scope of existing contracts to help clients save money • Proactively diversified our business operations across numerous private and public sector markets and market segments.	• Supply of services that support essential client functions rather than discretionary activities • Initiatives to increase the efficiency of Group operations • Newer operations in justice and emergency services and customer management have continued to open up bid opportunities with new clients.
Human resources	• Failure to recruit and retain quality people impacts business delivery and strategic plans • Morale issues weigh on productivity and innovation • Higher costs likely from increased turnover of staff.	• Extensive training and development for all staff and management • Continual development and performance appraisals • Competitive incentive and bonus plans • Succession planning • Comprehensive vetting process in line with roles.	• Introduction of new Capita Vetting Policy to better detect issues with candidates • Increased staff numbers through contract growth/acquisition to manage consistently • Whistleblowing line refresh to ensure significant staff issues escalated appropriately.

Principal risk categories

Potential impacts, examples of mitigations and developments in 2013

Key risk categories	Potential risks and impacts	Mitigating activities include	2013 developments
Information security	• Contractual and regulatory penalties • Loss or theft of customer/ client data • Loss or theft of intellectual property • Adverse media comment and reputation impact on brand • End customer detriment.	• Group-wide policies and procedures • Single information security framework, including policies and processes • Risk Committee oversight at all business levels • Staff training and monitoring programme • Implementation of Group information security policies and protocols by acquired businesses • Cross-Group forum to discuss issues, effective controls • Regular oversight by Group Risk and Compliance and Group Internal Audit • Centralised proactive and reactive PR team.	• Appointment of divisional information security directors to better focus local business effort • Executive level Group Security Risk Board and governance structure set-up • Potential changes in EU Data Protection legislation requires considerable work and shifts the liability landscape.
Technical infrastructure and systems availability	• Failure of IT managed services to support core services and business needs • Inability to adequately recover after disaster/incident impacting service delivery • Failure to protect client, end customer and Capita data.	• Adoption of industry standard managed service standards and controls • Disaster recovery testing • Deployment of robust issue detection software and resolution practices • Adherence to higher level security environments as clients require • Adoption, where appropriate and effective, of ISO 27001 standards.	• Increased investment into core IT infrastructure • Refresh of managed services • Greater internal and external stakeholder expectations • Investment in internal IT risk management framework.
Fraud, bribery and corruption	• Significant civil and criminal penalties in cases of bribery/ corruption • Potential prohibition from bidding for public sector contracts • Client and end customer detriment • Financial impact of fraud • Impact to brand reputation.	• Appropriate policies and procedures in place including a Group-wide 'whistleblowing' policy • Board led anti-corruption and anti-fraud culture; zero-tolerance approach with a robust disciplinary process • Training of senior management across Capita • Formal risk assessments of vulnerabilities • Oversight by Group Risk and Compliance • Fraud investigation team to investigate and prosecute cases, identify root causes and remedial work.	• Changes in whistleblowing legislation increased risk/onus on employers • Enhanced vetting and screening procedures introduced on new staff • Refreshed fraud policies.
Regulatory and legal risk	• Non-compliance of our businesses with the requirements of our regulatory bodies in the UK or overseas, e.g. our fund administration operation and client money obligations • Regulatory, financial and contractual penalties • Client and end customer detriment • Impact on brand reputation • Potential legal action from clients, customers and suppliers.	• Appropriate policies and procedures • Monitoring by compliance teams in business, Group Risk and Compliance and Group Internal Audit providing further oversight • Risk Committee oversight at all business levels • Risk-based assurance and actions for improvement • Independent reporting to Group Audit and Risk Committee and Group Financial Services Risk Committee.	• New financial services regulator and supervision team for Capita • Increased number of FCA supervised firms in Capita to follow consumer credit changes • New key regulators for Capita businesses including Solicitors Regulatory Authority.
Health and safety	• Non-compliance with health and safety regulations • Adverse impact on well-being of our employees.	• Rigorously applied Health and Safety Policy and processes • Health and safety training • Comprehensive Group-wide health and safety audits undertaken twice a year • Environmental management system in place.	• Asbestos policy and management system is now in place and most of the training has been completed – although we have had a number of incidents in 2013, risk has been reduced.
Environmental	• Non-compliance with environmental regulations • As a low impact company our key environmental impacts are energy use, business travel, resource use and waste management which we manage proactively.	• Rigorously applied Environmental Policy and processes • Raising awareness of environmental issues across the Group • Continue to measure and manage our carbon footprint and achieve energy reductions. • Environmental site audits carried out twice a year • Reduction of paper use and increase in recycling • Reducing energy use to reduce energy and CRC Allowance costs.	• Packaging regulations risk in Capita Secure Information Services reduced through working more closely with IT Services to improve packaging data collection.

6. Strong financial discipline

Capita is a financially focused business. We have strong financial controls and effective governance across the Group and we monitor performance against our clear aims and KPIs, see page 13.

We delivered strong financial results in 2013 with 15% underlying revenue growth, underlying profit before tax (PBT)[1] up 14% to £475.0m and underlying earnings per share (EPS)[1] up 14% to 59.4[1]p. As a result, we have recommended a final dividend of 26.5p, up 13% year-on-year.

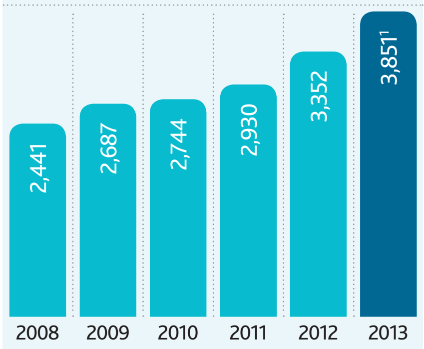
Revenue

Aim: achieve disciplined, sustainable, profitable growth.

In the full year 2013, underlying revenue on an ongoing basis, increased by 15% to £3,851m[1] (2012: £3,352m). This comprised 8% organic growth (net of attrition), 8% from acquisitions, completed in 2012 (3%) and 2013 (5%), and -1% arising from business disposals.

Revenue (£m)

5 year compound growth 10%



Operating profit and margin

Aim: maintain steady underlying operating margins.

Underlying operating profit[2] rose by 11% in 2013 to £516.9m[1] (2012: £466.7m). We closely manage operating costs to ensure that the business is growing profitably, leveraging our scale (in particular our extensive shared service infrastructure) and maintaining effective procurement processes and a lean corporate structure. Our valuable client propositions and our ability to be very selective about the opportunities we pursue allow the Group to generate healthy underlying operating margins. We are confident that underlying Group operating margins will be maintained in the range of 12.5% to 13.5% for the foreseeable future.

In 2013, our operating margin[2] was 13.4%[1] (2012: 13.9%) which is at the upper end of our anticipated range of 12.5% – 13.5%, even though 2013 was a busy year for new contract implementations. The major contract implementations undertaken during the year, including the two largest in Capita's history with Staffordshire County Council and Telefónica UK (O2), are progressing well.

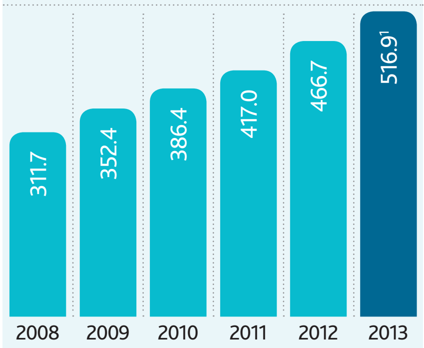
[1] On an ongoing basis, 2013 numbers excluding the partial sale of our Insurance Distribution and planned SIP business closure, see note 4 on page 105. 2012 numbers have not been restated on this basis.

[2] Adjusted for new pension standard IAS19 (R). Excludes non-underlying items detailed in note 5 administrative expenses on page 105.

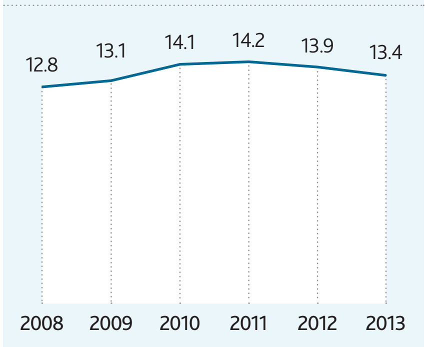
As previously disclosed, in H2 2013, we completed the disposal of some of our Insurance Distribution operations and announced the planned closure of our SIP (Self Invested Pensions) administration business based in Salisbury. This followed a detailed review which concluded that the route to recovery for these businesses would take a long time and we therefore acted swiftly to resolve this. In 2013, these operations generated £45m of Group revenue and made a combined operating loss of £14.4m. The combined non-trading cash cost, net of tax, from the sale and planned closure is £38.5m. The loss on disposal was £82.1m including £62.4m from impairment of goodwill and intangible assets.

Underlying operating profit (£m)[2] KPI

5 year compound growth 11%



Underlying operating margin (%)[1]



Earnings per share (EPS)

Aim: achieve long term, steady growth in EPS.

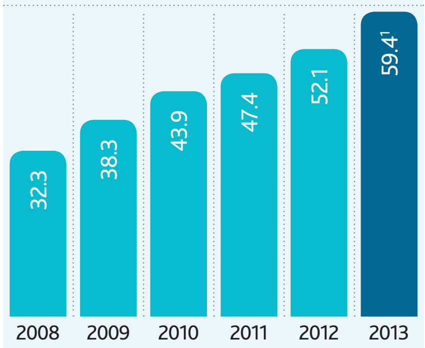
Long term growth in EPS is a fundamental driver to increasing shareholder value. Basic EPS is calculated by dividing net profit for the year attributable to ordinary equity holders by the weighted number of ordinary shares in issue during the year. Board directors' long term incentive remuneration includes EPS targets, and from 1 January 2014, will also include ROCE targets, to align their interests with those of our shareholders.

see page 78

In 2013, underlying earnings per share grew by 14% to 59.4p[2] (2012: 52.1p) (see note 11 on page 110).

Underlying earnings per share (p)[2] KPI

5 year compound growth 13%

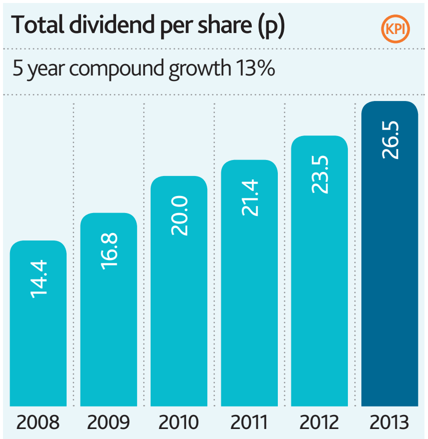


[1] On an ongoing basis, 2013 numbers excluding the partial sale of our Insurance Distribution and planned SIP business closure, see note 4 on page 105. 2012 numbers have not been restated on this basis.

[2] Adjusted for new pension standard, IAS19 (R). Excludes non-underlying items, see note 5 on page 105.

Dividends

The Group dividend strategy is to return surplus cash to shareholders through a combination of progressive dividends and, when appropriate, capital returns. The Board is recommending a final dividend of 17.8p per ordinary share (2012: 15.6p), making a total of 26.5p for the year (2012: 23.5p) representing an increase for the year of 13%. The final dividend will be payable on 28 May 2014 to shareholders on the register at the close of business on 22 April 2014. Including the proposed final dividend, Capita's total dividend will have grown at a compound annual rate of 13% over the five years to 31 December 2013. Dividend cover is 2.2 times for 2013.

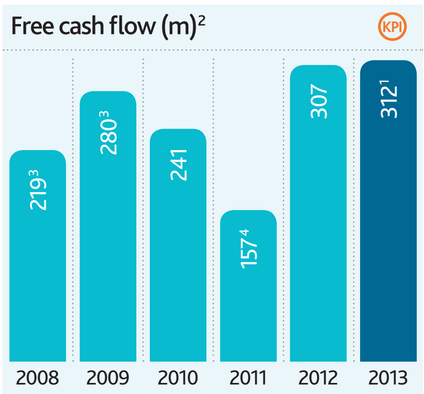


Cash flow[2]

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

In 2013, £546m[1] (2012: £515m) of cash flow was generated by operations representing an operating profit to cash conversion ratio (defined as underlying cash generated from operations divided by underlying operating profit for the year) of 106%[1] (2012: 110%). This reflects the Group's focus on cash generation and the success of the measures introduced across the business in 2012 which are now firmly embedded in our financial and operating reporting structure. We believe that we can achieve an annual cash conversion ratio at or around 100% for the foreseeable future.

Free cash flow[2] (defined as operating cash flow, less net capital expenditure, interest and taxation for the year) was £312m excluding business disposal and planned closure (2012: £307m), despite the higher capital expenditure on new contract implementations.

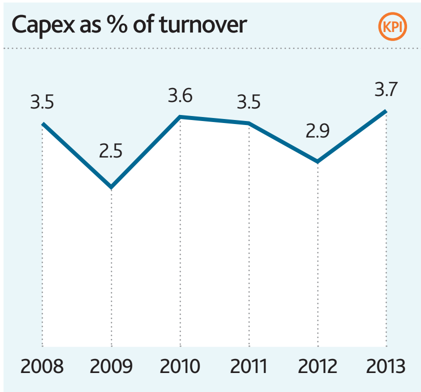


Capital expenditure (capex)

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

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

We aim to contain net capital expenditure at or below 4% of revenue. In 2013, we met this objective, with net capex at 3.7% of annual revenue (2012: 2.9%). The higher level of capex is the consequence of a record level of new contract implementations in the year. There are currently no indications of significant capex requirements in our business forecasts or bid pipeline that would take us over our 4% threshold.



[1] On an ongoing basis, 2013 numbers excluding the partial sale of our Insurance Distribution and planned SIP business closure, see note 4 of the accounts. 2012 numbers have not been restated on this basis.

[2] Adjusted for new pension standard IAS19 (R). Excludes non-underlying items detailed in note 5 on page 105.

[3] Exceptional additional pension contribution £10m (2008), £40m (2009).

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

Return on capital employed (ROCE)[2]

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

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

ROCE is calculated as underlying operating profit divided by average capital employed.

Capital employed (CE) is the total of equity shareholders funds, net debt, pension deficit and equity impact from accumulated non-underlying items.

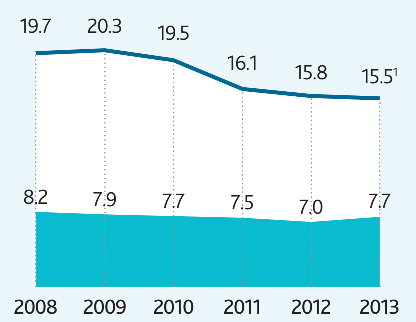
Average capital employed is the weighted average acquisition spend during the year plus the average of opening CE plus closing CE excluding acquisition spend during the year.

In the chart below the post-tax weighted average cost of capital (WACC) indicates the return that could be expected from the capital invested in the business. It is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our post-tax WACC assuming a risk-free rate of 2.8%, a market risk premium of 7.6% and a Beta of 0.8.

We focus on driving a healthy return on capital. During 2013, our post-tax return on average capital employed was 15.5%[1] (2012: 15.8%). This compares to our estimated post-tax WACC which is 7.7%.

In 2014, subject to shareholder approval at the Annual General Meeting, Board Directors' incentive schemes additionally have ROCE targets, alongside EPS targets, to align further their interests with those of our shareholders.
see page 78

Net return on capital (%)[2] KPI



Gearing

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

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

As at 31 December 2013, we have £1,134m of private placement bond debt of which only £11m matures in 2014 with the remainder gradually maturing to 2021. In addition, we have £200m of bank debt under a two-year term loan facility maturing in July 2015, offset by £158m of cash held on deposit.

At 31 December 2013, our annualised net debt to EBITDA ratio[2] was 2.02[1] (2012: 1.91) with annualised interest cover[2] at 12.3[1] times (2012: 9.4 times).

Balance sheet gearing KPI

	2013	2012
Net debt		
Bond debt (£m)[1]	**1,134**	1,148
Net bank facilities drawn (£m)	**–**	–
Cash in bank (£m)	**(158)**	(307)
Term debt (£m)	**200**	185
Other	**27**	3
Total underlying net debt (£m)	**1,203**	1,030
Interest cover	**12.3x**	9.4x
Net debt to EBITDA	**2.02**	1.91

[1] Underlying net debt after impact of currency and interest swaps.

Bond debt maturity profile as at 31 December 2013

	2013 £m
2014	**10.6**
2015	**97.0**
2016	**141.0**
2017	**124.1**
2018	**153.2**
2019	**100.8**
2020	**294.0**
2021	**214.0**
Total	**1,134.7**

[1] On an ongoing basis, 2013 numbers excluding the partial sale of our Insurance Distribution and planned SIP business closure, see note 4 of the accounts. 2012 numbers have not been restated on this basis.

[2] Adjusted for new pension standard IAS19 (R). Excludes non-underlying items detailed in note 5 on page 105.

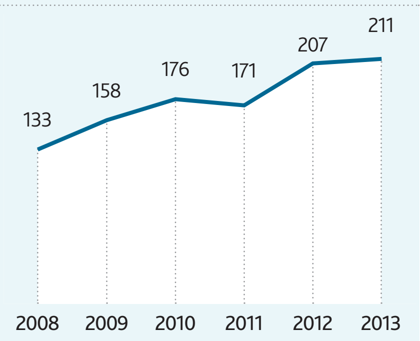
Economic profit

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

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

Group economic profit (£m) KPI

5 year compound growth 9%



Taxation

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

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

Capita's contribution of £43.5m through UK corporation tax paid in 2013 (2012: £55.7m) is only part of our total tax contribution. Capita is a significant contributor to the UK Exchequer, paying and collecting a wide range of taxes on behalf of the UK Government. Each year, Capita contributes to The Hundred Group survey quantifying the total tax contribution of the FTSE 100 companies. During 2013, £184.4m (2012: £166.8m) of other UK taxes were borne by the Group including business rates, import duties, irrecoverable VAT, employers' NIC, and environmental taxes. In addition, Capita collected and remitted to the UK Government £344.8m (2012: £287.2m) of VAT and £347.3m (2012: £294.1m) of PAYE and employee NIC.

Delivering shareholder value

Over the 10-year period to 31 December 2013, Capita has delivered £1.4bn (net of £274m equity raising in April 2012) to shareholders through dividends, share buybacks and special dividend. Capita's total shareholder return over the same period is 425% compared to 115% for the FTSE 100.

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

- Distribution to shareholders through dividends: a key element in the creation of shareholder value is a progressive dividend policy.
  see page 42
- Funding acquisitions to add value: securing small to medium-sized acquisitions is integral to Capita's future growth.
  see page 24
- Share buybacks: opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. We did not complete any share buybacks in 2013, however, we will continue to evaluate any attractive opportunities as they arise. Shareholders renewed the Group's authority to purchase up to 10% of issued share capital at our 2013 Annual General Meeting.

Creating economic profit

	2013[1]	2012	2011	2010	2009	2008
Underlying operating profit[2] (£m)	**517**	467	417	386	352	312
Average capital (£m)	**2,701**	2,348	1,976	1,491	1,271	1,155
Tax (%)	**19.0**	20.5	23.5	24.5	26.8	27.0
Post-tax WACC (estimated %)	**7.7**	7.0	7.5	7.7	7.9	8.2
Capital charge (£m)	**(208)**	(164)	(148)	(115)	(100)	(95)
Tax (£m)	**(98)**	(96)	(98)	(95)	(94)	(84)
Economic profit (£m)	**211**	207	171	176	158	133

[1] On an ongoing basis, 2013 numbers excluding the partial sale of our Insurance Distribution and planned SIP business closure, see note 4 of the accounts. 2012 numbers have not been restated on this basis.

[2] Adjusted for new pension standard IAS19 (R). Excludes non-underlying items detailed in note 5 on page 105.

Performance summary

	2013	2012	2011	2010	2009	2008
Dividend per share						
Interim dividend (p)	**8.70**	7.90	7.20	6.60	5.60	4.80
Final dividend (p)	**17.80**	15.60	14.20	13.40	11.20	9.60
Total ordinary dividend (p)	**26.50**	23.50	21.40	20.00	16.80	14.40
Total dividend (p)	**26.50**	23.50	21.40	20.00	16.80	14.40
Dividend cover	**2.24x**	2.26x	2.27x	2.25x	2.31x	2.31x
Totals						
Interim dividend (£m)	**57**	51	44	40	34	29
Final dividend (£m)	**117**	102	87	81	69	59
Total ordinary dividend (£m)	**174**	153	131	121	103	88
Total dividend paid (£m)	**174**	153	131	121	103	88
Share buybacks						
% of share capital authorised to repurchase	**10**	10	10	10	10	10
% of share capital repurchased	**–**	–	–	2.5	–	1.7
Issued share capital at year-end (m)	**656**	652	608	606	617	611
No. of shares repurchased (m)	**–**	–	–	15.4	–	10.4
Average price (p)	**–**	–	–	751	–	659
Total cost (£m)	**–**	–	–	116	–	68
Shareholder returns						
Total return to shareholders (£m)	**174**	153	131	237	103	156

7. Operating responsibly

Operating responsibly is essential to our business, creating long term value for all our stakeholders but also contributing positively to society and the environment, leading to a more sustainable future.

By operating a responsible and sustainable business, we create financial value through:

- building our competitive advantage
- managing risk and reducing costs across our business
- attracting, retaining and motivating the best people
- creating value for clients by helping them deliver their own corporate responsibility (CR) agenda
- encouraging innovation and identifying opportunities to grow and expand into new markets
- maintaining and enhancing our brand reputation.

Our five CR priority areas

We have identified five CR priority areas which have the greatest economic impact on our business, are of most concern to our stakeholders, and which have the greatest potential to affect our future business.

We set KPIs around each priority to drive improvement and we measure and report on our progress annually, see page 14 for a summary of these performance measures. Our monthly MOB reporting process provides a forum through which opportunities and material risks can be shared with the Group Board.

1. Responding to our clients
2. Managing and motivating our people
3. Building successful supplier relationships
4. Running a resource efficient business
5. Investing in local communities

View all our policies online:
www.capita.co.uk/responsibility

CR leadership

Our CR programme is overseen by the Group Board. Gordon Hurst, Group Finance Director has overall responsibility for our strategy, with each Executive Director having responsibility for one or more priority impact areas.

The CR strategy and operating structure are communicated across Capita by a central CR team in association with the functional heads who form the CR Steering Group. The functional heads are responsible for activities within their respective areas. They provide guidance and support at the business unit level and communicate progress to the Board.

The CR Steering Group meets regularly throughout the year to review and challenge the Group's approach, impact areas and risks and opportunities. They are supported by a number of communication initiatives and employee networks that help us embed our CR programmes across the Group.

Responding to our clients

Meeting the needs of our clients, and delivering high quality services, is an integral part of Capita's model and is detailed throughout this report.
see pages 15 to 33.

Managing and motivating our people

Over 70% of our 64,000 employees have transferred to Capita under TUPE (Transfer of Undertakings, Protection of Employment) regulations demonstrating the depth of our experience of managing complex large-scale employee transfers.

We track employee retention as one of our key performance indicators. In 2013, our retention rate for managers across the Group (divisional directors and senior management teams) was 98% and our overall employee retention rate was 82%.

Succession planning is a key element of our strategy, ensuring that we have the appropriate resources in place to maintain stable leadership. In order to retain the best people we give them the opportunity to grow and develop and we actively reassign managers to new business areas in order to promote the Capita ethos. This allows us to share innovation and skills between contracts and businesses, helping us to stay at the forefront of the BPM market. We support all our employees in their career development and offer a number of different types of training programmes, delivered by our internal learning and development business.

It is vital that we have the right people, with the right skills, to deliver high quality services for our broad client base. We strive to create a place of work which is inspiring, open, supportive and secure. We have a clear set of values which include: respect and support, consistency in managing our employees, delivering consistent high quality services and giving our employees autonomy and responsibility in their roles.

People policies

We apply our values, policies and principles to all our employees, wherever they are based. They are reviewed regularly and as we grow our international business, we continually adapt our policy and training materials to comply with, or exceed, the legal and regulatory requirements of the countries in which we operate. We have a number of Capita-wide policies to protect our employees, including those covering equality and diversity, health and safety, our whistleblowing policy, 'speak up', and our code of ethical conduct. Our joint COOs have Board responsibility for these policies and ensure that they are adopted across the business.

Respecting human rights

We understand our responsibility to respect the human rights of our employees and those of the communities in which we operate. We support the principles set out in the articles of the United Nations' Universal Declaration of Human Rights, and the International Labour Organisation (ILO) Core Labour Principles.

As a service business, we mainly focus on labour and workplace rights, including fair working conditions, freedom of association and collective bargaining. In 2014, we are developing a stand-alone human rights policy, in consultation with the Group's CR Steering Group and stakeholders across our business. The policy will build on our existing human rights commitments currently detailed in our people policies and our responsible sourcing policy and will be developed in conjunction with an action plan.

Health and safety

Most of our work is office-based, requiring a strong focus on health and safety issues such as slips, trips and falls and workstation assessments. However, we have an increasing number of field force workers who may face different issues.

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

We monitor our health and safety performance across the business and in 2013, our accident rate was 1.42 per 1,000 employees (2012: 1.41) showing a 38% reduction in reportable accidents from our baseline in 2004.

Recognising and rewarding performance

We aim to attract and retain the best possible talent for our business and recognise that rewarding people's individual achievements plays a key part in this. Remuneration packages and local performance schemes are managed by individual businesses, supported by corporate guidance, to ensure they are competitive within their markets and they reflect terms and conditions and union arrangements within each business unit.

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

Developing our employees

We operate a consistent performance management system across the whole of Capita and use this to identify talented employees who have the potential to be one of our future leaders. Our Capita Manager Academy runs programmes designed to equip them with the skills they need to meet this potential. In 2013, we launched a new masters course for middle managers looking to progress in their career. We also introduced a graduate development programme MSc in leadership and management, which currently has 28 participants. We offer a wide variety of learning and development opportunities for all our employees including online training, workplace training, coaching and group instruction. This year, we invested £14m in training across the Group (2012: £13m).

Diversity and inclusion

Our aim is to attract the best people from the broadest talent pool so that our teams reflect the communities we serve and deliver a better service for our clients. We focus on a number of key areas:

- values and behaviour
- equal opportunities
- promoting a positive working environment
- meeting the needs of diverse customers.

As we expand into new areas of business, we face new challenges. For example, our contracts with the UK Border Agency and the Department for Work and Pensions often require us to support people with very specific needs. We aim to build teams that understand those needs, so that they are equipped with the skills and behaviours they need to provide a high level of appropriate service. All our employees are required to complete online diversity awareness training every three years and we monitor compliance on a monthly basis.

Employee engagement

Listening to and valuing the opinions of our employees is good for productivity and retention, and it helps shape our future business. We engage with employees in a number of ways, from face-to-face conversations with managers to our annual employee survey. Structured around our core values, the employee survey helps us identify what we're doing well and what we can improve. In 2013, 46% of our employees responded to our employee survey (2012: 46%). We are now using the results to shape our 2014 strategy.

Our 2013 performance: our people

	2013	2012
Employee retention		
Manager retention rate (divisional directors and senior management team)	**98%**	96%
Overall employee retention rate	**82%**	83%
Health and safety (accident frequency rate per 1,000 employees RIDDOR)	**1.42**	1.41
Employee diversity		
Male/female split	**51% male/ 49% female 32,087 male/ 30,648 female**	50% male/ 50% female 26,533 male/ 26,113 female
Male/female split for senior management (divisional directors and senior management teams)	**86% male/ 14% female 84 male/14 female**	88% male/ 12% female 61 male/8 female
Male/female split for Board of directors	**67% male/33% female 6 male/ 3 female**	70% male/ 30% female 7 male/ 3 female
Percentage/actual number of employees from ethnic minority groups[1]	**22% 24,812**	19% 20,387
Percentage of employees working part-time out of total workforce	**18%**	19%
Employees by location		
Onshore	**88.5%**	87.7%
Offshore	**9.0%**	9.8%
Nearshore	**2.5%**	2.5%

[1] Based on 45% of our employees disclosing their ethnic origin in our annual employee survey (2012: 44%).

Building successful supplier relationships

As Capita continues to grow and diversify, both in terms of service and geographical spread, the impact of our purchasing decisions widens. We have a very diverse supplier base, currently spending around £1.1bn a year with some 28,900 suppliers across our delivery network. For further details on our business centres:

see page 23

We have a central procurement team that takes a category management approach that allows us to build strategic partnerships. The team manages our key strategic suppliers and also supports a network of local procurement specialists within individual businesses to ensure consistent standards are met across the Group. Our central team meets regularly with key suppliers to review performance, share knowledge and expertise, and look at opportunities to collaborate. Spending time with these suppliers means that they understand our business and opportunities for improvement, and we can help them improve their own CR performance.

Our responsible sourcing policy, which we refreshed and re-launched in March 2013, outlines the principles and standards we expect from our suppliers, including the health and safety of their employees, human rights, working conditions, anti-bribery and corruption and environmental management. We assess the risk associated with each supplier based on the amount we spend with them, what they supply and where in the world they operate. This assessment determines how we engage with them to ensure they comply with our policies.

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

Diversity in our supply chain

We aim to work with a diverse range of suppliers, and we actively encourage SMEs, voluntary and community organisations and social enterprises to be part of our supply chain. Currently 64% of our supplier base are SMEs. Where possible we support the communities where we work by using local suppliers.

Our 2013 performance: supplier relationships

	2013	2012
Annually audit all strategic suppliers (KPI)	**100%**	100%
Engaging with our suppliers	**All new suppliers registered on online portal to ensure they meet our standards**	All new suppliers registered on online portal to ensure they meet our standards

Running a resource efficient business

Climate change and resource scarcity are two of the biggest issues facing society and we are committed to playing our part in tackling these challenges, taking a pro-active approach to good environmental management and trying to minimise both our direct and indirect impacts on the environment.

We monitor and assess our environmental impacts and continue to focus our efforts on: minimising energy use at our sites, reducing business travel, managing our resource use and waste management. We also seek to minimise any risks to our own operations, including having business continuity plans in place, for example, to mitigate if there are extreme weather conditions which may prevent our employees getting to work to deliver for our clients.

Our environmental policy sets out our approach to managing and reducing our impacts on the environment. Our environmental management system is based on ISO14001. Some of our businesses, including Capita Property and Infrastructure, have gained external accreditation, where it is required by their marketplace. A number of our clients also require us to gain the accreditation for their particular operations. At the end of 2013, this certification covered buildings where approximately 11% of our employees are based.

Reducing our carbon footprint

We measure and report our carbon emissions annually and in 2010 we set ourselves a target to reduce our carbon intensity (scopes 1 and 2) by 4.5% a year. In 2013 our carbon emissions were 110,341 tonnes CO_2eq, an increase of 6%. This increase was due to a number of reasons including; continued growth of the business through acquisitions and contract wins including new operations such as the Fire Service College; increased travel to our international network of business centres; significant increase in 24/7 call centre operations.

Energy use

Reducing energy use in our offices is a key priority. We've had a programme in place to identify and act on opportunities to make improvements since 2006. We continue to make improvements across our sites, installing smart metering at all sites that come under the UK Government's carbon reduction regulations. In 2013, we also committed to use renewable energy across our operations.

We are making significant energy savings in our data centres. In 2013, we switched to EC fans, which consume around 50% less electricity than conventional air conditioning fans.

Business travel

In 2013, we adapted and re-launched our Business Travel Policy, reflecting the step change we're aiming for in cutting both costs and carbon emissions. We've introduced green travel plans at a number of sites. We encourage our employees to use video and teleconferencing to reduce unnecessary business travel. In 2013, we saw a 25% increase in teleconferences. Where travel is unavoidable, we encourage the use of public transport and intelligent travel planning.

We've capped company car CO_2 emissions at 130g/km, below the industry average, and we plan to reduce it further in the future. We're also trialling the use of electric cars across some of our operations and we promote the UK Government's Cycle to Work scheme as part of our employee benefits package.

Waste management and resource use

We strive to use our resources efficiently and avoid generating waste, for example, reducing our paper usage through the increased use of electronic document management systems. Last year we began working with our facilities provider to collect accurate, robust data on our waste at our 20 largest waste producing sites and set ourselves a target of recycling 80% of all our waste at these sites by 2015. In 2013, the average volume of waste recycled at these sites was 43%, with two sites already recycling 74% of waste.

We have a number of Group-wide recycling schemes in place for paper, consumables such as printer cartridges, mobile phones and redundant IT equipment. In 2013, we maintained high levels of recycling, with 26,139 pieces of IT equipment recycled. We also work with our suppliers to source more environmentally friendly products and review the logistics of how goods are delivered to our offices.

Although our water usage across our sites is not significant, we endeavour to conserve this resource. For example, where we have direct control of a site, or when we are refurbishing one of our offices, we install low flush toilets, taps and urinal controls.

Our 2013 performance: environmental impacts

	2013	2012
Total carbon footprint (tonnes CO_2eq)[1] KPI	**110,341**	103,728
Carbon intensity for whole Group[2]	**28.7%**	23.3%
Conference calls made	**379,082**	302,939
Undertake environmental site audits twice a year	**100% audits completed**	100% audits completed

[1] Based on latest greenhouse gas emissions from Defra.
[2] Scope 1 & 2 (tonnes CO_2/£m) offices only.

Investing in local communities

We are committed to making a positive impact in the communities where we work and live. We create value in the local communities we operate in, both directly through our community investment programme and indirectly through our daily business operations. Our community programme aims to tackle pressing social and economic issues on both a national and local scale. We endeavour to go beyond our contractual obligations to demonstrate to our clients, customers and employees that we are a responsible business and want to have a lasting positive impact.

Community development foundation

In 2013, we set up our new community development foundation – Creating Better Tomorrows. The foundation helps charities, SMEs and voluntary organisations working across four key areas. These areas were chosen to align with the issues present in some of our key markets so that we can help and work with people beyond the services delivered by our business operations and on behalf of our clients.

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

We support organisations that work in these areas in a number of different ways drawing on our capabilities and employee skills by:

- providing a virtual shared-services centre where organisations can access support services to improve their efficiency and focus more on their front-line
- providing pro bono advice and mentoring to help build capacity and long term sustainability
- developing and delivering community partnership programmes to address local needs.

In addition to our community development foundation we also have an active charity programme, supporting many charities, including our 2013 corporate charity partner, Cancer Research UK. In 2013, we raised £239,000 through this partnership. For further details on our community projects, visit:
www.capita.co.uk/responsibility

Measuring our impact

To ensure we are achieving our aims, and having a positive impact in the community, we endeavour to measure and report our contribution, looking not just at the inputs and outputs but also the overall community and business impacts of our activities. We do this using London Benchmarking Group methodology, taking account of cash, time given and in-kind donations. In 2013, we estimate that our total community investment was £1.8m based on data capture from approximately 40% of the business.
In 2014, we will also be developing our impact measurements further to better assess the effectiveness of our community programmes across a wider percentage of the Group.

Our 2013 performance: community investment

	2013	2012
Total community investment (using London Benchmarking Group methodology) KPI	**£1.8m**	£1.8m
Total corporate donations including support for our charity partner and matched funding scheme, other community initiatives and disaster appeals	**£297k**	£135k
Employee fundraising for our corporate charity partner	**£239k**	£245k

Strong leadership and robust processes

8. Flexible operating structure

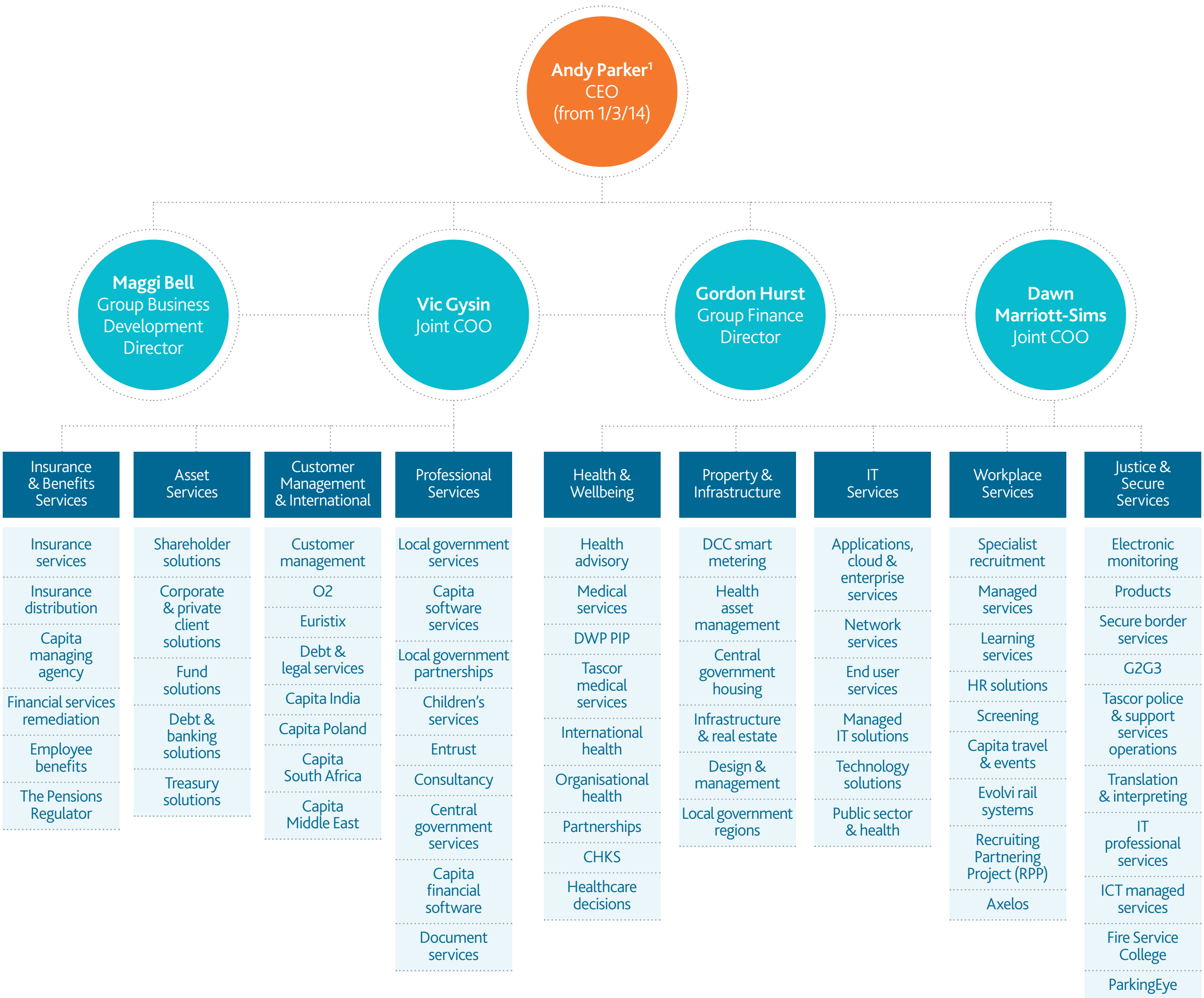
We have a straightforward and pragmatic divisional structure that supports Capita's major sales effort, our large scale customer management and BPM contracts and our specialist businesses and service lines. This structure provides ready access to the Group's wider expertise, economies of scale and centralised procurement and enables us to create and deploy innovation and harness the best of ICT and business processes.

We continuously assess the needs of each area and move businesses, contracts and managers across the divisions to ensure that we have the necessary leadership and resources for future development and growth. To support the delivery of our significant sales success over the previous 18 months, we have made some changes to the Group's structure and, with effect from October 2013, we now operate in nine market-facing or service-specific divisions. For further details on our vertical markets in which these businesses and the Group operate:
see page 20

Each division is led by a divisional director who meets on several occasions during the year with the Group's senior divisional finance director and the heads of strategic sales and acquisitions to share knowledge, experience and to discuss opportunities and challenges which can be supported by cross-divisional support.

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

Divisional structure



[1] Paul Pindar served as CEO throughout 2013 and until his retirement from the Board and Capita on 28 February 2014.

Insurance & Benefits Services

	2013	2012
Revenue (£m)	**667.0**	736.1
Underlying operating profit (£m)	**60.6**	79.2
Underlying operating margin (%)	**9.1**	10.8
Capex (£m)	**27.1**	44.3

2013 summary

- Successful launch of auto-enrolment in the UK on behalf of The Pensions Regulator, with more than 96% of all large organisations registered on time
- Our employee benefits business successfully auto-enrolled over 80 Capita clients and saw a 300% rise in employees using the 'Orbit' benefits portal
- Completed integration of the Orbit portal with our existing Hartlink pensions administration platform
- Divested portfolio of unprofitable insurance distribution businesses and announced planned exit from sub-scale SIPs business: see page 105
- Completed a number of major IT platform migrations and transformations, improving service and cost levels for our clients. However, legacy systems in our Life & Pensions business continue to cost more than anticipated
- Successful launch of an innovative market-level shared service for service companies and brokers in Singapore
- Continued to support our customers through ongoing regulatory change.

2014 priorities

- Develop new specialist services to further support our life and pensions partnerships
- Grow our employee benefits offering via cross-selling our total service propositions to existing clients and continuing to engage closely with other Capita businesses for mutual benefit
- Continue our ICT platform and property consolidation programmes, with further IT transformation being delivered for our clients
- Continue to work with underwriters, carriers and brokers across the industry to deliver expert support through the insurance life cycle
- Expand the service offering of our new underwriting services platform in Singapore
- Support the next phase of auto-enrolment in the UK
- Continue to help our customers manage the impact of regulatory change
- Invest in technology to improve efficiency of our services.

Capita Asset Services

	2013	2012
Revenue (£m)	**246.6**	240.9
Underlying operating profit (£m)	**64.0**	63.3
Underlying operating margin (%)	**25.9**	26.2
Capex (£m)	**17.6**	15.7

2013 summary

- Rebranded as Capita Asset Services, previously Investor & Banking Services, presenting one overall proposition to the market
- Secured a number of key wins, including our new £69m four year major contract with the National Asset Management Agency (NAMA) in Ireland
- Continued strong performance of our shareholder solutions business, winning 'best registrar' at the Stock Market Awards and the Financial Times Investment Awards
- Our fund solutions business continues to be the largest provider of independent authorised corporate director services partnering with over 70 investment managers across over 200 funds with combined assets of £25bn
- Appointment of a sector specialist for the oil and gas sector in order to maximise the potential in this key vertical market
- Enhanced our operating capability with the opening of representative offices in New York and Singapore.

2014 priorities

- Maximise the opportunity from the anticipated uplift in initial public offering (IPO) activity
- Deployment of a new customer management system to support client relationships and identify cross-selling opportunities with other Capita divisions
- Continue to develop our ICT systems and processes to ensure scalability and enhanced service quality for clients
- Leverage existing internal and external relationships and areas of expertise to develop new products and service lines.

Health & Wellbeing

	2013	2012
Revenue (£m)	**162.8**	172.2
Underlying operating profit (£m)	**21.8**	32.6
Underlying operating margin (%)	**13.4**	18.9
Capex (£m)	**26.8**	2.8

2013 summary

- Consolidated our health and wellbeing offering, combining our clinical capability, national networks, specialist health advisory and healthcare sector expertise
- Commenced our contract to deliver Personal Independence Payment (PIP) assessments across central England and Wales. The contract started later than anticipated due to client requirements. Implementation of this new benefit assessment has been challenging but the service is showing step improvements
- Secured strategic relationship with Sussex Community NHS Trust to support its aim to drive change and improve the quality and sustainability of its patient care services
- Secured five-year contract with the Welsh Government to supply healthcare information services to all health boards across Wales, complementing our coverage across Scotland and England
- Enhanced our disability assessment capability with the acquisition of Contact Associates, leading provider of disability assessment services to the university sector
- Acquisition of Cymbio, complementing our healthcare intelligence and IT-enabled change capabilities and contributing to our analytics and data intelligence proposition.

2014 priorities

- Commence PIP contract in Northern Ireland, we expect to assess over one million claimants over five years across central England, Wales and Northern Ireland
- Develop and launch new medical assessments and reporting services including continuing care assessments, patient screening for clinical trials and health research
- Build on the number and range of our NHS partnerships and continue to provide transformation design, implementation and management support through advisory, change management, information and analytics as well as support services, for instance, HR, IT and property
- Continue to build our operational strength and depth, investing in systems to retain our market-leading position
- Secure further capability enhancing acquisitions.

Customer Management & International

	2013	2012
Revenue (£m)	**505.7**	358.0
Underlying operating profit (£m)	**62.9**	47.8
Underlying operating margin (%)	**12.4**	13.4
Capex (£m)	**10.7**	3.9

2013 summary

- Secured and commenced a number of significant contract wins including two strategic partnerships with major telecommunications organisations, Carphone Warehouse and Telefónica UK (O2)
- Awarded first new major strategic partnership in the utilities sector, securing a customer management transformation and delivery programme for npower
- Extended and expanded relationship with the Department for Work and Pensions (DWP) to manage 10 customer management enquiry lines
- Strengthened our contact management analytics and transformation capability through the acquisition of Euristix and development of technology partnerships
- Opened up new debt management market opportunities with the acquisition of iQor UK (now branded Akinika) supported by Euristix analytics
- Created Capita Legal Services to enable extension from debt management into litigation administration; acquisition of Optima underway, subject to SRA approval
- Developed our new international delivery centres, now employing over 350 full-time employees in Poland and approximately 750 in South Africa.

2014 priorities

- Continue to shift transactional contact management revenue towards longer term strategic client relationships
- Continue to invest in our transformational outsourcing capability in the customer management sector, focusing on people, technology and partnerships
- Build momentum in debt management by establishing our end-to-end BPO proposition and securing key target clients
- Complete acquisition of Optima and establish a clear and compelling proposition for legal services
- Continue to drive growth across our international delivery footprint by broadening our service lines and investing in innovation.

Property & Infrastructure

	2013	2012
Revenue (£m)	277.3	255.8
Underlying operating profit (£m)	15.7	6.8
Underlying operating margin (%)	5.7	2.7
Capex (£m)	1.5	2.4

2013 summary

- Restructured the business to ensure we continue to closely align with Capita's BPM offering and rebranded from Capita Symonds to Capita property and infrastructure
- Enhanced management and re-focused business plans to address challenging market conditions
- Commenced overall management and implementation of the data and communications infrastructure and service for national smart metering on behalf of the Department of Energy and Climate Change
- Successful launch of partnership with the London Borough of Barnet to deliver Development and Regulatory Services (DRS), worth £154m over 10 years
- Enhanced housing sector proposition offering a 'total housing solution'
- Secured position on three of four lots on the Environment Agency's new four-year water and environment management (WEM) framework, in partnership with URS Corporation
- Selected by HS2 Ltd for three of four lots on its new land and property professional services framework where we will advise on a range of property and land matters.

2014 priorities

- Pursue major contract opportunities, particularly in local government, health and central government
- Continue to rigorously control internal costs and manage quality of project delivery
- Secure position on new major government frameworks
- Further strengthen relationships across Capita to secure sales opportunities through our client base
- Continue to develop long term customer relationships to ensure quality of revenues.

IT Services

	2013	2012
Revenue (£m)	457.6	437.2
Underlying operating profit (£m)	25.0	29.4
Underlying operating margin (%)	5.5	6.7
Capex (£m)	20.9	14.9

2013 summary

- Commenced our strategic technology partnership with the University of Strathclyde for the delivery of a full range of IT services
- Awarded a three-year ICT contract extension by Viridian, Ireland's leading independent energy company
- Secured a range of new public sector contracts and long term extensions including North Ayrshire and West Dumbartonshire councils
- Won or extended more than 20 contracts in the private sector in the logistics, telecommunications, utilities and retail sectors
- Retained our presence on key Government frameworks including G-Cloud and public services network (PSN)
- Strengthened our strategic relationships with the world's leading technology products and services companies including Cisco, Microsoft, EMC, VCE and Avaya
- Acquisition of Northgate Managed Services, leading provider of cloud, infrastructure solutions and specialist managed services, complementing our services and UK network
- Implemented next stages of restructuring.

2014 priorities

- Build on the sales momentum achieved in 2013
- Maintain control and discipline regarding operating margins
- Continue to extend and enhance our service offerings mainly around cloud and network services, for example, realising the potential of our Microsoft Cloud OS relationship
- Leverage our core network, data centre and cloud capabilities to drive further improvements in service excellence and productivity
- Continue to work closely with other divisions and our clients to deliver world-class platform-based ICT solutions.

Workplace Services

	2013	2012
Revenue (£m)	566.0	410.9
Underlying operating profit (£m)	73.5	54.5
Underlying operating margin (%)	13.0	13.3
Capex (£m)	7.1	3.9

2013 summary

- Successful launch of Axelos, developed to deliver and commercialise the Government's portfolio of project and IT management training tools. Full operational delivery commenced from 1 January 2014
- Selected as sole provider for a framework providing recruitment, HR admin and payroll to Kings College Hospital
- Implemented the first phase of Contingent Labour One, a framework to deliver contractor resources into central government and arm's length bodies
- Award of numerous multi-year managed learning service contracts and renewals across pharmaceuticals, financial services, utilities, technology and FMCG
- Launched an innovative education solution combining our payroll software with Capita's SIMS product, delivering significant administrative benefits and savings to schools
- Launched our integrated travel and events offering and secured many new customers, including being selected as a preferred supplier to the Wider Public Sector Travel Management Services contract
- Enhanced our offering through the acquisition of a number of specialist businesses.
  see page 25

2014 priorities

- Add value to our client's operations through the introduction of an enhanced technology capability supporting a more intuitive employee experience, generating greater insight into HR processes and management information
- Delivery of revised proposition in the recruitment process outsourcing (RPO) space focused on driving flexibility and value to clients through research and insight-led talent sourcing
- Work with local government services to roll out enhanced HR/finance BPO offering to local authorities based on our new technology platform and service capability
- Implementation of unified back-office database, timesheet and billing processes (Verto) in order to provide a more efficient solution for clients
- Continue to drive change in Army Recruiting through the Recruiting Partnering Project (RPP).

Professional Services

	2013	2012
Revenue (£m)	556.5	453.8
Underlying operating profit (£m)	128.5	111.4
Underlying operating margin (%)	23.1	24.5
Capex (£m)	7.8	5.3

2013 summary

- Successful launch of Entrust, our education support services partnership with Staffordshire County Council, already securing over 240 new service line customers including over 110 outside of Staffordshire
- Secured extension to our strategic partnership with Southampton City Council for a further five years to 2022
- Delivered a new Offices Services model across West Sussex County Council that delivers reduced cost and improved service
- Broadened a number of our local government relationships, including the award of an additional contract to support Swindon Borough Council's children's localities teams and a contract to deliver enhanced customer services for Vale of White Horse District Council
- Selected by Lambeth Council, via their London wide framework, to deliver customer services in a further nine-year contract which runs alongside our existing partnership
- Continued growth from both the Gas Safe and Constructionline registers
- Successfully cross-selling our local government software 'Engage' smartphone app across a wide range of sectors
- Integration of all our document services businesses into one offering, document information services.

2014 priorities

- Continue to support our existing and new local government clients in delivering more for less including use of technology, process automation, innovation and flexible delivery
- Develop and innovate new models for delivery which help to meet the challenges presenting our local government client base
- Grow our Entrust JV through the development of relationships with schools and education institutions across the UK
- Develop further service and product lines which support mobile working across our client base.

Justice & Secure Services

	2013	2012
Revenue (£m)	**411.4**	286.9
Underlying operating profit (£m)	**64.9**	41.7
Underlying operating margin (%)	**15.8**	14.5
Capex (£m)	**8.7**	3.6

2013 summary

- Selected as preferred bidder by the Ministry of Justice for the electronic monitoring and field support services contract and also the role of overall services and systems integrator
- Transferred Fire Service College into the division in April 2013 – already delivering strong progress in creating a world-class training centre
- Working with Thames Valley, West Mercia, Warwickshire and Gloucester police forces to assist in the delivery of custody services for special operations
- Selected as supplier for south west fire control, the biggest shared control room solution in the UK fire service
- Completed a number of acquisitions which enhance our offering including: STL, provider of software and ICT to the criminal justice system, Parking Eye, provider of technology-based car parking services and G2G3, provider of immersion and simulation-based training.

2014 priorities

- Successfully complete the transition of the electronic monitoring service and launch the new operating model
- Leverage our services and acquisitions to support coordinated delivery of critical services which focus on citizens and help to address underlying social problems
- Bring together our capability to cross-sell to clients and other Capita divisions
- Drive efficiency for our clients by leveraging our offshore and nearshore delivery capability
- Broaden our service offering to ensure that our service portfolio matches the full operational life-cycle of our clients
- Continue to develop market-leading products focusing on mobile workforce which offer data, video and voice solutions
- Continue development of multi-agency training and exercising capability at the Fire Service College to support the national drive for 'blue-light' inter-operability
- Extend the reach of our extensive database of qualified, vetted interpreters.

On behalf of the Board

Paul Pindar
Chief Executive

Gordon Hurst
Group Finance Director

26 February 2014

Governance

This section of our report introduces our Board members and contains our Director's report, consisting of the corporate governance statement which includes the Audit and Risk Committee report and the remuneration reports.

Board members see pages 59 and 60

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

Corporate governance statement see page 61

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

Audit and Risk Committee report see page 67

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

Remuneration report see page 78

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

Board members

During 2013 the Board was comprised of nine Directors, made up of the Chairman, Chief Executive and four other Executive and three Independent Non-Executive Directors. We continue to believe that we have a talented and substantial team in place to support our continued growth. However, as the Group continually grows and diversifies, we will regularly review the Board composition to ensure it meets the needs of the business.

Non-Executive Directors

Martin Bolland
Non-Executive Chairman

Joined the Board in March 2008 and became Chairman on 1 January 2010. A Chartered Accountant, Martin previously held a number of senior operational positions within the Lonrho Group and was also a founder and partner of Alchemy Partners for 11 years. Martin continues to be a Senior Adviser to Alchemy Partners. He is also currently Chairman of PD Parks Holdings Limited (Parkdean Holidays).

Committee memberships:
Nomination Committee (Chair)

Martina King
Non-Executive Director

Joined the Board in January 2005. Martina is CEO of technology company Featurespace. Martina previously held a number of senior positions in marketing and online media, including Managing Director of Aurasma, a division of Autonomy, Yahoo! and Capital Radio. Her broad knowledge and extensive experience of management, new technology and sales and marketing brings a different range of expertise to the Board. Martina is also Non-Executive Director of Cineworld PLC and Debenhams Plc. Martina will retire from the Board following the AGM in May 2014.

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

Gillian Sheldon
Senior Independent Director

Joined the Board in September 2012 and was appointed Senior Independent Director on 1 January 2013. She is currently a senior banker at Credit Suisse. Gillian has substantial experience of advising boards across a wide range of complex situations and transactions. Gillian joined Credit Suisse in 1997 having worked for seven years at NM Rothschild & Sons. Gillian is also a Trustee of BBC Children in Need, appointed in September 2012.

Committee memberships:
Audit and Risk Committee
Nomination Committee
Remuneration Committee

Paul Bowtell
Non-Executive Director

Joined the Board in June 2010 and is currently Chief Financial Officer of Gala Coral Group. Paul was previously on the board of Tui Travel PLC as Chief Financial Officer and was also on the board of First Choice Holidays PLC. He is a Chartered Accountant and has extensive experience across the UK retail sector, having held a number of senior positions with British Gas, WH Smith and Forte. Paul 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 and will be stepping down at the AGM of SThree in April 2014.

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

Executive Directors

Paul Pindar
Chief Executive
until 28 February 2014

Joined Capita in 1987 from 3i after advising Capita on its management buy-out. He became Chief Executive in 1999. A Chartered Accountant, Paul's responsibilities included managing and developing Capita's business to achieve the Company's strategic objectives and he had overall responsibility for our charitable approach. In July 2012 Paul was appointed Non-Executive Chairman of Integrated Dental Holdings. Paul retires from the Company and steps down from the Board on 28 February 2014 after 27 years.

Gordon Hurst
Group Finance Director

Joined Capita in 1988 and was appointed to the Board as Commercial Director in February 1995 and then as Group Finance Director in 1996. Gordon was also appointed Company Secretary in 2000. A Chartered Accountant, Gordon 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.

Vic Gysin
Joint Chief Operating Officer

Joined Capita in 2002 and was appointed to the Board in January 2011. Vic oversees Capita's financial services operations, Customer Management and International and the Professional Services Divisions. Vic has held various positions across the Group including being Divisional Director for Capita's Insurance and Investor Services and Integrated Services Divisions. 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 had joint Board responsibility for clients and employees with Andy Parker in 2013 and now with Dawn Marriott-Sims in 2014. He also has responsibility for the Group HR function.

Andy Parker
Chief Executive
from 1 March 2014

Joined Capita in 2001 and was appointed to the Board in January 2011 as Joint Chief Operating Officer. Andy was appointed Deputy Chief Executive on 1 June 2013 and Chief Executive from 1 March 2014.

During 2013 Andy oversaw the majority of Capita's non-financial services operations. Andy has held various positions across the Group including Divisional Director for Capita's ICT, Health and Business Services Division and held a number of senior finance director positions including three years as Senior Divisional Financial Director. Andy is a Chartered Accountant and has extensive commercial and financial experience. Andy had joint Board responsibility for clients and employees with Vic Gysin during 2013. He assumes overall responsibility for our charitable approach from 1 March 2014.

Maggi Bell
Business Development Director

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

Dawn Marriott-Sims
Joint Chief Operating Officer
from 1 January 2014

Joined Capita in 2000 and from 2011 until 31 December 2013 held the position of Executive Director of Workplace Services Division. Prior to this, Dawn was Managing Director of Capita's Resourcing & Development Division, and prior to that Managing Director of Capita's IT Resourcing, Managed Services, Internal Resourcing and Learning & Development businesses. Dawn has over 20 years' experience within the employee services sector including implementation and development of major programmes and for securing and delivering services to both public and private sectors clients. Dawn is on the board of Institute for Collaborative Working, a not-for-profit organisation.

Corporate governance statement

Chairman's report

I am pleased to present to you this report on the work of the Capita Board during 2013. This section of the report (pages 61 to 66) and the section headed 'Other Statutory and Regulatory Information' (pages 73 to 77) together form the Directors' report.

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

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

I would like to take this opportunity to thank Paul Pindar for his enormous contribution to Capita over the past 27 years. He has been instrumental in smoothly guiding the Company through its exceptional growth and performance, delivering an unbroken track record of year-on-year earnings growth. He has inspired the best in his team with his indomitable leadership and unwavering sense of fun and good humour. Our robust succession planning has ensured that there is a strong team in place to continue delivering success.

On behalf of the Board we wish him every success for the future.

Results for 2013

2013 was an excellent year for Capita, with underlying revenue on an ongoing basis up by 15%, underlying operating profit up by 11% and underlying earnings per share up 14%. During the year, we secured Capita's largest ever contract by annual value with Telefónica UK (O2) valued at £1.2bn over 10 years. The majority of our divisions traded well in 2013, with particularly good performance across our Customer Management & International, Workplace Services and Professional Services divisions. Our Insurance & Benefits division continues to bear higher costs than anticipated of IT legacy systems.

Additionally, as announced in November 2013, we completed the disposal of some of our Insurance Distribution operations and closed our SIP (Self Invested Pensions) administration business based in Salisbury. This followed a detailed review which concluded that the route to recovery for these businesses would take a long time and we therefore acted swiftly to resolve this. In 2013, these operations generated £45m of Group revenue and made a combined operating loss of £14.4m. The combined non-trading cash cost, net of tax, from the sale and closure is £38.5m. The loss on disposal was £82.1m including £62.4m from impairment of goodwill and intangible assets.

Board activities in 2013

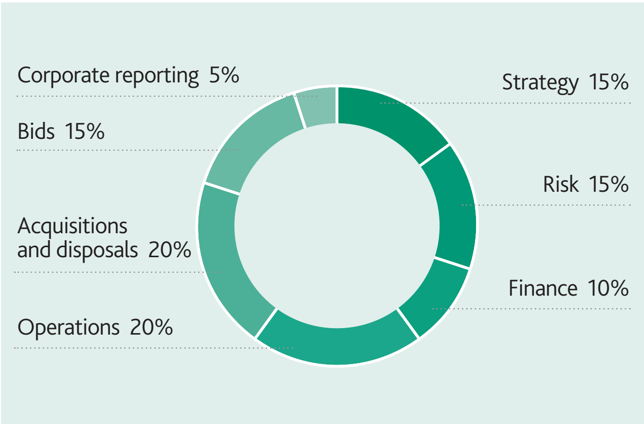
The Group has undertaken a large number of acquisitions and has had an excellent year of securing new and renewed major contracts.

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

In May 2013 we announced that Andy Parker would additionally take on the role of Deputy Chief Executive to directly support Paul Pindar as we continued to grow. In November we announced that Paul Pindar would be retiring on 28 February 2014 and Andy Parker would be promoted to Chief Executive from 1 March 2014. We also announced the promotion of Dawn Marriott-Sims to Joint Chief Operating Officer effective from 1 January 2014. Martina King is also retiring from the Board after 10 years as a Non-Executive Director from the AGM 2014. I wish Andy and Dawn every success in their new roles. I believe that we have a talented and strong team in place on the Group Board and across our divisional management team to support our continued growth as a Group.

Approximate allocation of agenda time in 2013

During the year the Board's discussions have been wide-ranging, including: strategy, acquisitions, finance, corporate reporting, operational performance and risk and internal audit. The time allocated to these areas of the Board is shown in the diagram below.



Strategy

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

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 35.

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, Andy Parker and Paul Pindar, which also include the financial outlook for the Group.

Major bids and acquisitions

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

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

Divisional senior management

As explained in 2012, a review was undertaken of the divisional senior management to ensure that the right management is in place to meet with the ongoing changing resourcing requirements of the Group. These changes are now complete and we believe that although we will continue to keep this under review, we have strong divisional management to support the Board for the business opportunities ahead.

Board evaluation in 2013

During October 2013, the Board evaluation process was carried out by means of a questionnaire requiring written responses from Directors. To ensure independence and objectivity, the questionnaire was conceived, administered and reviewed on a confidential basis by the Deputy Company Secretary. The resultant report, analysing responses and drawing anonymous conclusions, was sent to each Director for consideration. The Chairman also met with each Board member individually to discuss the performance of the Board and also discussed and agreed the form of the Board evaluation with Gillian Sheldon, Senior Independent Director.

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

The results were once again very positive and the final report was presented, without amendment, to the Board in November 2013. A very small number of minor follow-up matters were identified and are being addressed.

As part of our Board evaluation process, a series of meetings were held with the Non-Executives and the Senior Independent Director and also all members of the Board to discuss my own performance. The views of the Executive Directors were taken into consideration by the Non-Executives as part of the evaluation. I was not present at these meetings. A meeting of the Non-Executives without the Executive Directors was also held. I met with all members of the Board individually and regularly during the year to receive feedback and discuss current and long term opportunities.

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

An external evaluation was undertaken in 2012 by Genius Methods.

Risk & Compliance and Internal Audit

On pages 35 to 39 in the strategic report we have described fully the roles of Risk & Compliance and Internal Audit together with the risks and internal controls for the Group.

In order that the Board can ensure that the strategic direction and growth of the Group can continue successfully and with the appropriate risk oversight, meetings are held individually between the Group Risk & Compliance Director and the Group Internal Audit Director with the Chairman of the Audit and Risk Committee throughout the year as well as the normal scheduled meetings. Risks are identified in a number of ways and are prioritised and delegated in accordance with the risk ratings provided.

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

Directors

The Directors of the Company currently in office are listed on pages 59 and 60.

As I explained earlier in my report to you, Paul Pindar is retiring at the end of February 2014 and we were pleased to announce in November 2013 Andy Parker's promotion to Chief Executive effective from 1 March 2014. We were also delighted to announce the promotion of Dawn Marriott-Sims to the Board as Joint Chief Operating Officer from 1 January 2014.

Following 10 years as a Non-Executive Director, Martina King has decided to retire from the Board in May 2014. The Board thanks her for her strong contribution to the Board and as Chair of the Remuneration Committee and wishes her all future success.

All the Board (with the exception of Paul Pindar and Martina King) will stand for re-election (Dawn Marriott-Sims for election) at the forthcoming AGM. All of the Board have received a formal performance evaluation and each Director continues to be effective and to demonstrate their commitment to the role.

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

Martin Bolland
Non-Executive Chairman

26 February 2014

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

Capita plc and its subsidiaries (the Group) continue to be committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2012 (the Code) applies to accounting periods beginning on or after 1 October 2012. A copy of the Code is available from the Financial Reporting Council's website www.frc.org.uk. In addition, the Company complied with the provisions of The UK Corporate Governance Code 2010, as required by the Listing Rules 9.8.6. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in Sections A to E of the Codes except as detailed below:

Code provision	Area of non-compliance	Position at 31 December 2013
B.1.2 Composition of the Board	During the period the Board had an imbalance of Executive Directors to Independent Non-Executive Directors.	The balance was five Executive Directors and three Independent Non-Executive Directors and a Non-Executive Chairman.

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

This area of non-compliance is expected to remain throughout 2014.

Board changes in the year

There were no new appointments to the Board during 2013. There were a number of changes to roles and responsibilities as noted on page 62. From 1 January 2014, Dawn Marriott-Sims was appointed to the Board. Further information on the changes to the Board is set out in the Nomination Committee report on page 66.

Board composition

	Executive Directors	Non-Executive Directors
January 2013	Paul Pindar	Martin Bolland
	Gordon Hurst	Gillian Sheldon*
	Maggi Bell	Paul Bowtell*
	Vic Gysin	Martina King*
	Andy Parker	
January 2014 to 28 February 2014	Paul Pindar	Martin Bolland
	Andy Parker	Gillian Sheldon*
	Gordon Hurst	Paul Bowtell*
	Maggi Bell	Martina King*
	Vic Gysin	
	Dawn Marriott-Sims	
1 March 2014 onwards	Andy Parker	Martin Bolland
	Gordon Hurst	Gillian Sheldon*
	Maggi Bell	Paul Bowtell*
	Vic Gysin	Martina King*^
	Dawn Marriott-Sims	

* Independent in accordance with the Code.
^ Retiring at AGM in May 2014

Board leadership

Consistent with previous years, the Board continues to support the need to segregate the responsibility for operating the Board and managing the underlying business. Martin Bolland's role as Non-Executive Chairman and the role of Andy Parker as Chief Executive (Paul Pindar until 28 February 2014) are separate.

Martin Bolland as Chairman and Gillian Sheldon as Senior Independent Director also held meetings solely comprising the Non-Executive Directors during 2013. Both Martin and Gillian are also available to meet with shareholders when requested.

Role of the Board

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

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

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

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

Board independence

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

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

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

Board Directors' inductions and training

Following appointment to the Board, all new Directors receive an induction tailored to their individual requirements. They are encouraged to meet and be briefed on the roles of key people across the Group and have open access to all business areas and employees to build up an appropriate level of knowledge of the business that extends beyond formal papers and presentations to the Board. All Directors have received an appropriate induction for their roles within Capita. These have included familiarisation with:

- terms of reference for all committees and matters reserved for the Board
- overviews of the business via Management Operations Business (MOB) review reports
- the Group approach to risk management.

Following Andy Parker's appointment as Deputy Chief Executive in June 2013, specific training was undertaken in respect of governance and stakeholder relationships.

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

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

Company Secretary

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

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

The duties of the Company Secretary continue to grow with the increase in size and diversity of the Group's activities and legislative changes. To assist in this area, the Deputy Company Secretary coordinates and manages the provision of share registration, company secretarial services and share plans to the Group on behalf of Gordon Hurst. The Deputy Company Secretary has direct access and responsibility to the Chairs of the standing committees and open access to all the Directors. The Deputy Company Secretary has been appointed as Secretary to the Audit and Risk, Remuneration and Nomination Committees to ensure that there are no conflicts of interest. The Deputy Company Secretary meets regularly with the Chairman, the Chairman of the Audit and Risk Committee and the Chair of the Remuneration Committee and briefs them on areas of governance and committee requirements.

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

Committees' terms of reference

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

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

Matters reserved for the Board

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

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

Membership of the committees

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

	Martin Bolland	Gillian Sheldon	Martina King	Paul Bowtell
Nomination	(C)x	x	x	x
Audit and Risk		x	x	(C)x
Remuneration		x	(C)x	x

(C) Chair

Board and Committee members, frequency of meetings and attendance

During 2013 the Board met nine times, excluding ad hoc meetings, solely to deal with procedural matters. The Nomination Committee and the Remuneration Committee met three and five times during the year, respectively. The Audit and Risk Committee met six times during the year. Attendance is recorded in the table below:

	Board meetings	Nomination Committee meetings	Remuneration Committee meetings	Audit and Risk Committee meetings
Scheduled Meetings	9	3	5	6
Martin Bolland	9	3	–	–
Paul Pindar	8	–	–	–
Andy Parker	9	–	–	–
Gordon Hurst	8	–	–	–
Maggi Bell	9	–	–	–
Vic Gysin	7	–	–	–
Gillian Sheldon	9	3	5	6
Paul Bowtell	9	3	5	6
Martina King	9	3	5	6
Tim Brooke*	–	–	–	4

* Tim Brooke is a member of the Audit and Risk Committee only and is not a Non-Executive Director of Capita plc. Tim Brooke is an independent non-executive chair of Capita's Financial Services Risk Committee.

Dawn Marriott-Sims was not appointed to the Board until 1 January 2014.

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

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

Nomination Committee

The Nomination Committee in 2013 comprised Martin Bolland (Committee Chairman), Gillian Sheldon, Martina King and Paul Bowtell. The Deputy Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly. It met three times during the year.

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

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

- to identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition
- to keep the structure and size of the Board and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board
- to review the time commitment required from Non-Executive Directors, the performance of Directors and all declarations of interest made by Board members
- to consider the Group diversity position.

Board diversity

In 2013, 14% of our senior management team and 33% of our Board were women. From 1 January 2014, 40% of our Board are women. Capita sees significant business benefit in having access to the diversity of thinking that comes from people with a wide range of backgrounds at all levels in the Company. Only by encouraging this diversity and by fostering talent throughout the business can the Company expect to achieve further diversity in senior management. Capita has a network of diversity champions across the Group and the Company's training and mentoring initiatives actively support the fostering of talent at all levels in the business across the Company's diverse workforce. The Board and senior management teams across Capita are fully committed to continuing to foster talent and support those people from all backgrounds who wish to progress. However, the Company will also continue to appoint and promote people on merit and in line with the skills and attributes identified for each post, including those identified by the Nominations Committee for the Board. Further information is shown on page 48 of the strategic report.

Committee activities during 2013

During the year, the Committee considered the succession planning to the Board.

In May 2013, the Committee recommended to the Board that Andy Parker be appointed to support Paul Pindar with his duties as Chief Executive. When considering this appointment the Committee considered the size and structure of the Board and the balance and range of its Directors' knowledge and experience.

In November 2013, the Committee met to discuss the retirement from the Board of Paul Pindar and recommended to the Board that Andy Parker be promoted to the post of Chief Executive. A formal interview process took place with Andy and it was unanimously decided to recommend Andy for the role of Chief Executive.

The Committee also considered the appointment of Dawn Marriott-Sims to the Board as Joint Chief Operating Officer. Paul Pindar and Andy Parker were both consulted on this appointment and their recommendations were taken into consideration. Following a formal interview process, it was agreed to recommend the appointment of Dawn to the Board to this position.

In all instances neither an external search agency nor open advertising were used.

Martin Bolland continues to review opportunities for the Board on an ongoing basis.

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

Given that all Directors (apart from Paul Pindar and Martina King) will stand for re-election or election at the Annual General Meeting, the performance of all Directors, their interests and any potential conflicts of interest declared to the Company were reviewed.

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

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

Audit and Risk Committee report

I am pleased to present the report on the activities of the Audit and Risk Committee for the year to 31 December 2013. Set out below is a summary of the work carried out by the Committee.

Audit and Risk Committee

Throughout 2013, the members of the Audit and Risk Committee were Paul Bowtell (Chairman), Martina King, Gillian Sheldon and Tim Brooke. Paul, Martina and Gillian are all Independent Non-Executive Directors and Tim Brooke is also independent to Capita and brings his expertise in the Financial Services sector to support the Committee. Tim Brooke is an independent non-executive chair of Capita's Financial Services Risk Committee and is not an independent Non-Executive Director of Capita plc. Paul Bowtell is a Chartered Accountant and has recent and relevant financial experience for the purposes of the Code and the FRC's Guidance on Audit Committees.

The Board has reviewed the performance of the Committee and is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner.

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

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

Role and responsibilities

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

- to review the reporting of financial and other information to the shareholders of the Company and monitor the integrity of the financial statements
- to review the effectiveness and objectivity of the external audit process, assess the independence of the Auditor and ensure appropriate policies and procedures are in place to protect such independence
- to review and assess the adequacy of the systems of internal control and risk management (which includes monitoring the Company's Internal Audit function) and monitor the risk profile of the business
- to report to the Board on how it has discharged its responsibilities.

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

Committee activities during 2013

The Committee met six times during the year. Meetings are planned around the financial calendar of the Company and the meeting held in May is specifically to focus on the risk, internal control and compliance agendas. Reports are received at all meetings from the Group Risk & Compliance and Group Internal Audit departments and new contract terms are also reviewed as appropriate.

During the year the Committee undertook the following activities:

Internal Controls and Risk	• Received and considered reports from the Group Internal Audit Director on the audits undertaken and results and actions of audits • Review of foreign operations' risk assessment results • Review of training by all staff in control areas • Met with the Group Risk & Compliance Director, Deputy Company Secretary and Group Internal Audit Director independently of Executive Directors • Monitoring on an ongoing basis the internal controls that are operated by management to ensure the integrity of information reported to shareholders • Review of major contract wins • Review the internal audits undertaken and the schedule of the audits for the remainder of the year • Review of the business plan for Risk & Compliance and Internal Audit • Ongoing reporting on Group safety, health and environment • Received presentations from each Divisional Director on the risks within their business and the approach towards this area • Commenced a programme to refresh our overall risk management framework to better support the ongoing development of the business • Reviewed the activities and minutes of the Group Financial Services Risk Committee.
External Auditor	• Considered and approved the audit approach and scope of audit to be undertaken by KPMG • Met with KPMG independently of Executive Directors • Received reporting from KPMG on the audit findings • Considered the level of non-audit services being provided by KPMG to satisfy itself that the objectivity and independence of KPMG was safeguarded • Review and approval of the representation letter required by KPMG • Received a report from KPMG on the audit planning for the year-end process.
Accounting, tax and financial reporting	• Review and recommendation of the annual report and accounts and the half yearly accounts including the financial and non-financial aspects, including a review of the significant accounting policies and to ensure these accounts give a fair, balanced and clear presentation of the performance of the Group • Corporate governance updates in relation to matters pertaining to the scope of the Committee • Review of the disclosures of internal controls, risk management and principal risks and uncertainties within the report and accounts.

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

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

During 2013, we commenced a programme to refresh our overall risk management framework to better support the ongoing development of the business. 2014 will see the continuation of this development and roll out to the wider business. Further detail is shown on page 37 of the strategic report.

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

Accounting for major contracts

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

The Audit and Risk Committee receives a summary presentation for all new major contracts as they are won. These reports include an overall summary of the contract, the financial projections, and key risks and assumptions. The proposed accounting for major contracts is considered by the Group Finance Director to ensure compliance with the Group's accounting policies and to understand their impact on the financial statements. Technical advice is taken where necessary from the Group's technical accounting team and also from the external Auditor. Major contracts continue to be monitored through the monthly operating boards and any serious issues identified in respect of these contracts are referred back to the Committee as required.

The Committee has also reviewed the external Auditor's findings and where necessary sought further confirmation or explanation from the Group Finance Director and the Board to concur that the correct accounting treatments of major contracts has been applied and that disclosure is sufficient.

Acquisition activity and accounting

Significant acquisitions are reviewed by the Board and the Audit and Risk Committee to ensure that the acquisition is in line with Group strategy and sufficient due diligence is undertaken in order to understand the business being acquired and any identified risks quantified or explained.

As part of the on-boarding of acquisitions into the business, the accounting policies of each acquisition are examined and, where they are non-compliant with Group policy, they are adjusted in the opening balance sheet to ensure consistency. The assets and liabilities are reviewed to ensure that they are fairly stated and that there is sufficient evidence to support any adjustments to carrying values including the recognition of any previously unrecognised balances. The Group Finance Director and Group Financial Controller review the resulting acquired opening balance sheet for each acquisition. The profitability of acquisitions is monitored through the monthly operating boards and any serious issues identified in respect of these acquisitions are referred back to the Committee.

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

Carrying value of goodwill and intangibles

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

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

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

Divestment and planned closure of businesses in year

The Audit and Risk Committee reviews the financial statements in conjunction with the external Auditor's report to satisfy itself that a reader of the accounts is able to make a fair judgement of those results including the quality of earnings.

The main area of consideration this year was the recognition of the loss resulting from the disposal of some of our insurance distribution businesses and the announcement of the planned closure of our self-invested pensions administration business. Judgements were required to establish the loss on disposal, including the identification of assets disposed, any liabilities remaining post disposal and the estimated cost of running off the closed businesses. The Board, including the Audit and Risk Committee, has reviewed the documentation related to these two transactions including their financial impact. In order to fully understand the impact of the disposal and closure on the Group and to best understand the financials of the ongoing business, this loss has been presented as a non-underlying transaction in the income statement.

The Committee is satisfied that the quantitative and qualitative information provided in the financial statements is sufficient and provides a good understanding of the transactions that were undertaken in the year and determined that there was no single transaction other than the disposal and closure referred to above that requires separate disclosure.

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

Defined benefit pension liabilities

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

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

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

Provisions

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

Underlying and non-underlying presentation

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

Materiality

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

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

After having made such enquiries, the Audit and Risk Committee are satisfied that materiality has been applied correctly in the accounts and that material items brought to their attention remain unadjusted where their inclusion would not cause detriment to the overall reading of the financial statements.

Disclosure of information to Auditor

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

Statutory Auditor

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

Auditor independence

The Committee takes seriously its responsibility to put in place safeguards to Auditor objectivity and independence. The Company is committed to ensuring appropriate independence in its relationship with the Auditor and the key safeguards are:

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

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

Non-audit fees

The Committee has established a policy on the provision of services by the Group's Auditor. The policy describes the circumstances in which the Auditor may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the policy and considers and approves requests to use the Auditor for non-audit work. Any assignment where the expected fee is above £150,000 requires specific approval from the Committee or a member of the Committee. The Deputy Company Secretary deals with day-to-day administration of the policy, facilitating requests for approval by the Committee. The Auditor undertook various non-audit work such as assistance on acquisitions and bids across our business in 2013.

The policy is reviewed by the Committee annually. Details of audit and non-audit fees are given in note 7 on page 108.

External Auditor performance

The Committee discussed the performance of KPMG during the period and was satisfied that the level of communication and reporting was in line with requirements. The evaluation of KPMG also included the planning of the audit and a post audit evaluation.

External Auditor re-appointment

The Company's audit services were last subject to a tender process in 2010 at which time KPMG Audit Plc replaced Ernst & Young LLP as the Group's Auditor. The lead audit partner at Group level changed with effect from the beginning of the current financial year. His predecessor who had been lead audit partner on KPMG's appointment in 2010 retired from the firm in 2013. The lead audit partner is rotated on a five-yearly basis. There are no contractual obligations which restrict the Committee's choice of auditor. The Code states that FTSE 350 companies should tender the provision of audit services at least every 10 years or explain their approach, if different.

KPMG Audit Plc has notified the Company that they are not seeking reappointment. This is to facilitate the orderly wind down of the business of KPMG Audit Plc. It is proposed that KPMG LLP be put forward as the Auditor of the Company at the forthcoming Annual General Meeting and will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, and that their remuneration be fixed by the Directors.

A resolution to appoint KPMG LLP as the Auditor of the Company will be put forward at the forthcoming Annual General Meeting.

Risk management and internal control

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established a clear organisational structure with defined authority levels. The day-to-day running of the Group's business is delegated to the Executive Directors of the Company. The Executive Directors meet with both operational and finance management on a monthly basis through the Group's programme of monthly operating board meetings.

Key financial and operational measures are reported on a monthly basis and are measured against both business plan (budget) and monthly re-forecasts in these meetings.

The Committee have implemented a programme of agenda items that give them the opportunity to hear on a more regular basis from the Managing Directors of the Group's nine divisions to determine the risks inherent in those businesses and to understand how risk and control processes work in their areas.

On an annual basis, through the business planning process, each business unit is required to prepare a risk assessment process on the key strategic, operational, financial and accounting risks to identify, evaluate and manage the significant risks to the Group's business. They include common definitions of risk and ensure, as far as practicable, that the policies and procedures established by the Board are appropriate to manage the perceived risks to the Group.

These assessments are supplemented by a detailed evaluation of the key financial controls of the business units which are critically reviewed by the Group's Director of Compliance and Risk. During the year, the risk assessment process revealed no significant risks of which the Board was not previously aware.

The risks and uncertainties which are currently judged to have the most significant impact on the Group's long term performance are set out on pages 38 to 39. The Committee has reviewed the effectiveness of the Group's risk management and internal control systems. Taking into account the existing 2013 policies and the refresh of the overall risk management framework commenced in 2013 and to be continued in 2014, the Board, with the advice of the Committee, has reviewed the effectiveness of the risk management and internal control systems and is satisfied that the Group has in place effective risk management and internal control systems.

Internal audit

The Group's finance department includes a separate internal audit function which is managed by a qualified auditor. A full programme of internal audit visits has been completed during the year. The scope of audit work generally focuses on internal management control and risk procedures that are operating with each of the Group's businesses.

Written reports are prepared on the results of internal audit work during the year and submitted alongside verbal updates of in-progress activity to the Audit and Risk Committee by the Group Internal Audit Director. The representations given would set out strengths and weaknesses identified during the work, together with any recommendations for remedial action or further review.

The reports are reviewed and discussed with Executive Directors. Throughout the year the Group Internal Audit Director reports on the work carried out.

The Committee reviews management's response to the matters raised and ensures that any action is commensurate with the level of risk, whether real or perceived.

There were no significant weaknesses identified in the year, but a number of recommendations were acted upon within the Group to strengthen in-place controls or risk awareness. The Committee remains satisfied that the Group's systems of internal controls work well and that the resources required to complete a full and targeted programme of internal audit work, within a group of Capita's size, are in place.

Anti-bribery and whistleblowing (speak up)

Capita has a Group wide anti-bribery and corruption policy to comply with the Bribery Act 2010 and it periodically reviews its procedures to ensure continued effective compliance in its businesses around the world.

The policy provides the framework to encourage and give employees confidence to 'blow the whistle' and report irregularities. Employees are encouraged to raise concerns with designated individuals, including the Executive Directors or the Chairman of the Audit and Risk Committee. All such reports will be investigated and reported to the Committee, together with details of corrective action taken. The Group's whistleblowing policy is monitored by the Committee and incidences are reported on in each meeting by the Group Risk and Compliance Director.

Paul Bowtell
Chairman
Audit and Risk Committee

26 February 2014

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 78 to 92.

Dialogue with shareholders

The Board encourages and seeks to build a mutual understanding of objectives between the Group and its shareholders. As part of this process the Executive Directors make regular presentations and meet with institutional shareholders to discuss the Group's business model and growth strategy, address any issues of concern, obtain feedback and consider corporate governance issues. The Board welcomes the revised UK Stewardship Code 2012 and the steps it has made to improve engagement and purposeful dialogue between companies and investors. All shareholders are encouraged to attend the Annual General Meeting and information for shareholders is available on the Company's website – www.capita.co.uk. All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The Chairman is personally available to the significant shareholders of the Group.

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

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

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

Internal control

This process is regularly reviewed by the Board. The Group's key internal control procedures are fully documented within the strategic report on pages 1 to 57.

Group Financial Services Risk Committee

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

The terms of reference for this forum include:

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

The scope of the Committee includes the FCA in the UK and the equivalent financial services regulator in other jurisdictions where the Group operates regulated financial services firms.

The Group Financial Services Risk Committee met five times in 2013 and attendance was as follows:

Name of member	Number of meetings attended
Tim Brooke	5
Martin Bolland	1
Vic Gysin	4
Gordon Hurst	5
Chris Terry – Group Risk & Compliance Director	4

Martin Bolland was appointed in September 2013 following a change to the terms of reference.

During 2013 we formed the Non-Financial Services Risk Committee. This will be formalised in the same way as the Financial Services Risk Committee and will be reported on in 2014.

Other statutory and regulatory information

Strategic report

The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 December 2013 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found in pages 1 to 57. Details of the Group's business goal, strategy and model are on pages 6 and 7. The information that fulfils the requirements of the corporate governance report can be found in pages 61 to 77.

Corporate governance report

The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure and Transparency Rules is set out on pages 61 to 77.

Management report

For the purposes of Rule 4.1.5R(2) and Rule 4.1.8 of the Financial Conduct Authority's Disclosure and Transparency Rules, this Directors' report and the strategic report on pages 1 to 92 comprise the management report.

Events after the balance sheet date

There were no events after the balance sheet date.

Appointment, re-appointment and removal of Directors

Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act 2006.

All Directors are subject to election at the first Annual General Meeting after their appointment and to re-election at intervals of no more than three years in accordance with the Code and the Company's Articles of Association. However, all Directors (apart from Paul Pindar and Martina King) will retire and will offer themselves for re-election (Dawn Marriott-Sims for election) at the Annual General Meeting in May, in accordance with the UK Corporate Governance Code.

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

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

Group activities

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

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

A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1 to 57. Our divisional operations and financial performance are detailed on pages 31 to 46.

Profits and dividends

The Group underlying profit before taxation amounted to £475.0m (2012: £417.0m). The Directors recommend a final dividend of 17.8p share (2012: 15.6p per share) to be paid on 28 May 2014 to ordinary shareholders on the Register on 22 April 2014. This gives a total dividend for the year of 26.5p per share (2012: 23.5p per share).

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

Conflicts policy

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

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

Major shareholders

At 31 December 2013, the Company had received notifications that the following were interested in accordance with the DTRs:

Shareholder	Number of shares	% of voting rights as at 31 December 2013	Number of shares direct	Number of shares indirect
BlackRock Inc*	34,483,013	5.23	34,483,013	
Invesco Limited	137,426,761	20.85		137,426,761
Legal & General Group Plc	19,924,558	3.02	17,089,329	2,835,229
Veritas Asset Management (UK) Limited	39,682,540	6.02		39,682,540

* This figure includes a contract for difference (CFD) for 2,286,691.

On 20 February 2014, the Company had received notifications that the following were interested in accordance with the DTRs:

Shareholder	Number of shares	% of voting rights as at 20 February 2014	Number of shares direct	Number of shares indirect
BlackRock Inc*	36,153,457	5.49	36,153,457	
Invesco Limited	131,365,538	19.93		131,365,538
Legal & General Group Plc	19,818,538	3.01	16,892,470	2,926,068
Veritas Asset Management (UK) Limited	42,647,140	6.47		42,647,140

* This figure includes a contract for difference (CFD) for 1,848,678.

Directors' interests

Details of Directors' interests in the share capital of the Company are listed on page 89.

Share capital

At 20 February 2014, 669,880,515 ordinary shares of 21/15p each have been issued and are fully paid up and are quoted on the London Stock Exchange. 10,765,823 shares are held in treasury and the total voting rights equated to 659,114,692. During the year ended 31 December 2013, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 1,402,641 new ordinary shares. 10,917 shares have been allotted under these schemes since the end of the financial year to the date of this report. 0.3% of the issued share capital is held within an employee benefit trust for the use of satisfying employee share options.

The share price at 31 December 2013 was 1,038p. The highest share price in the period was 1,057p and the lowest was 762p.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in May 2013. During the year the Company did not purchase any shares (2012: nil).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 57. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 40 to 45. In addition, note 26 to the financial statements on page 120 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

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

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

Disabled persons

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

Employee involvement

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

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

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

Political donations

The Group did not make any political donation or incur any political expenditure during the year.

Green house gas emissions

Details of the Group's greenhouse gas emissions are set out on page 50 of the strategic report.

Financial instruments

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

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

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

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

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

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

The Group is not generally exposed to significant foreign currency risk, except in respect of its overseas operations in India and South Africa, which generates exposure to movements in the Indian Rupee and South African Rand exchange rates. The Group seeks to mitigate the effect of this exposure by entering forward currency instruments, including non-deliverable forward contracts, to fix the sterling cost of highly probable forecast transactions denominated in Indian Rupees and South African Rand. Further details of the Group's financial instruments can be found in note 26 to the consolidated financial statements on pages 120 to 126.

Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contains a provision that enables the Company to indemnify the Directors of the Company in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Such provisions have been in force during the year and are in force at the date this report is approved. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2014 Annual General Meeting from 15 minutes before the meeting until it ends.

Powers of Directors

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

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

Change of control

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

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

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

Rights and restrictions attaching to shares

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

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

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

Restrictions on transfer of shares

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

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

Annual General Meeting

The 2014 Annual General Meeting (AGM) of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB, on 12 May 2014. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which is sent to shareholders with the 2013 annual report and accounts and includes notes explaining the business to be transacted and is also available on the Company's website at www.capita.co.uk. In May 2013 shareholders granted authority for the Company to purchase up to 65,533,675 ordinary shares which will expire at the conclusion of the 2015 AGM. No shares were purchased during 2013. A resolution to renew this authority will be put to shareholders at the 2014 Annual General Meeting.

In May 2013 shareholders also granted authority for the Company to issue up to 216,261,127 ordinary shares which will expire at the conclusion of the 2015 AGM. 1,402,641 Shares were issued during 2013. A resolution to renew this authority will be put to shareholders at the 2014 Annual General Meeting.

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

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

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

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

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

Details of the principal risk categories can be found on pages 38 and 39.

Approval of the annual accounts

Directors' responsibility statement

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

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

Directors' statement on the annual report

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

On behalf of the Board

Gordon Hurst
Group Finance Director and Company Secretary

26 February 2014

Capita plc
Registered in England and Wales No. 2081330

Directors' remuneration report

Annual statement from the Remuneration Committee Chair

Dear shareholder,

It is my pleasure to report on the activities of the Remuneration Committee for the period to 31 December 2013. This year's remuneration report has been prepared in accordance with the new remuneration reporting regime and will be presented to shareholders for approval at the forthcoming AGM to be held on 12 May 2014. At the AGM, shareholders will have the opportunity to vote on two separate remuneration resolutions as follows:

- a binding vote on the Directors' Remuneration Policy as set out on pages 81 to 83, which describes the Company's forward looking Remuneration Policy which will operate from 1 January 2014 and will, subject to shareholder approval, become formally effective from the conclusion of the 2014 AGM; and
- an advisory vote on the annual report on remuneration as set out on pages 84 to 92, which provides details of how the Policy for 2014 will be operated and the remuneration earned by Directors in the year ended 31 December 2013.

Readers of this report in previous years will be aware that our policy is to maintain the Company's Executive Directors' base salaries around the lower quartile of the FTSE 100, with performance-related pay forming a significant part of overall remuneration. However, our Executive Directors' base salaries have remained at the bottom of the lower quartile for a number of years with the gap between their salaries and other members of the lower quartile expanding and we therefore decided to investigate and address this issue. We appointed Deloitte to conduct research and we undertook a consultation with our major shareholders, the Association of British Insurers and Institutional Shareholder Services regarding some key proposed changes to Executive Directors' remuneration. I'd like to thank our shareholders, the ABI and ISS for their time and views on addressing this issue, which resulted in overwhelming support from our major shareholders on the proposals.

The revised remuneration arrangements are outlined in this year's remuneration report and the Remuneration Policy and will be subject to shareholder approval at the 2014 AGM. The Committee made a number of changes to the remuneration structure, although the changes remain consistent with our existing Remuneration Policy.

Summary of remuneration policy and strategy

The remuneration strategy of Capita is to provide a pay package that:

- attracts, motivates and retains the best employees
- encourages and is supportive of a high performance culture
- rewards the fulfilment of the overall business plan of the Group
- aligns management with the interests of our shareholders and other external stakeholders
- is consistent with our risk policies and systems.

In order to achieve this, our Remuneration Policy for Executive Directors is to set fixed pay (base salary plus benefits) around the lower quartile and to offer the potential for competitive levels of total pay if stretching performance targets attached to incentive awards are met. Our policy is that performance-related pay should form a significant part of Executive Directors' remuneration packages with an appropriate balance between short and longer term targets linked to delivery of the Group's business plan.

Paul Pindar's retirement

As also explained in our announcement in November 2013, Paul Pindar will receive no payments for salary after his retirement on 28 February 2014 and no other payments in relation to his retirement. Awards outstanding under the Long Term Incentive Plans and the Co-Investment Plan at the date of his retirement will continue until their maturity. Such awards will remain subject to the existing performance conditions and will be pro rata reduced for the time period post retirement. The Deferred Annual Bonus Plan matching award made in 2013 will lapse.

Remuneration policy for 2014 and overview of key changes

As explained above, a review has been undertaken of Executive Directors' remuneration and this has determined our policy going forward and this is detailed below:

- The maximum total pay potential of Executive Directors has been reduced. Previously, the maximum variable pay for the CEO was approximately 950% of salary, this has now been reduced to 500% of salary and the maximum variable pay for the other Executive Directors was approximately 800% of salary, this has now been reduced to 450% of salary
- Executive Director salaries are increased closer to a lower quartile market positioning consistent with our existing Remuneration Policy as shown on page 81
- Grants under our Deferred Annual Bonus matching share scheme will cease. There will also be no award to Andy Parker, our incoming CEO, equivalent to that granted to his predecessor under our Co-Investment Plan. This will simplify our long term incentive arrangements and reduce variable pay potential as a multiple of salary
- Future LTIP awards will be subject to a combination of ROCE and EPS performance measures.

The rebalancing of increased salaries and reduced variable pay potential will result in a reduction in total pay potential.

CEO salaries: FTSE companies 31-100*

* Companies based on average market capitalisation in 3 months to 1 January 2014.

Key principles underlying the changes

- Alignment with remuneration policy: our Remuneration Policy is for executive pay to be highly performance-orientated with fixed pay (salary and benefits) set around the lower quartile. However, our current Executive Director base salaries being consistently at the bottom of the lower quartile and virtually the lowest amongst similar sized FTSE companies, were inconsistent with that policy. These changes more closely align salaries with our intended salary market positioning
- Competitive pay packages for recruiting key talent: low Executive Director salaries have compressed salaries for other senior staff and have impacted our ability to recruit effectively at Divisional Director level and below. The changes will address this issue and ensure that we can offer competitive salaries throughout the business to both retain and attract talent effectively
- Retention of the management team: as illustrated on the total shareholder return chart on page 92, Capita's management team has consistently generated amongst the highest levels of returns to shareholders of FTSE 100 companies

  The Board is firmly of the view that retention of the current management team is vital to the continuation of this success. Additionally, the CEO succession plan, leading to the promotion of our internal candidate, Andy Parker, and his replacement COO, Dawn Marriot-Sims, another internal promotion, led the Committee to believe that an important factor in securing their future retention will be ensuring that they regard their pay arrangements, and in particular their salaries, as fair and appropriately competitive
- Appropriate leverage in package: in order to ensure total pay levels are competitive, Executive Directors currently have high multiples of variable pay potential to offset their low salaries. The changes will restructure the pay arrangements to reduce the extent of leverage and, as a consequence, significantly reduce the maximum potential total pay for Directors, whilst keeping them at competitive market rates
- Simplicity: Capita currently operates two different long term incentive schemes which are both subject to an EPS performance target. Our changes simplify this arrangement by removing one of those long term schemes. We believe this will improve the line of sight for participants and increase clarity for shareholders
- Alignment with strategy: a key principle of our pay philosophy is that pay should be aligned with delivery of strategic goals. The Committee believes that to measure long term performance against a broader range of performance metrics will better reflect delivery of the business plan and our strategic priorities. The proposal also responds to requests from some of our shareholders for us to use a wider selection of performance measures. We have, therefore, added Return on Capital Employed (ROCE) as an additional metric.

In summary, our revised Executive Directors' pay arrangements for 2014 will comprise the following elements:

Element of pay	Details	Performance conditions
Base salary	CEO £500,000 FD £380,000 Other Directors £300,000 – £340,000	n/a
Pension	5% of salary	n/a
Benefits	Private medical insurance, company car allowance, work travel and accommodation	n/a
Annual bonus	Maximum potential of 200% of salary Half paid in cash and half deferred in shares for three years	Underlying Group profit before tax
LTIP	Award of shares worth (at grant) 300% of salary for the CEO and 250% of salary for other Directors	75% based on EPS, 25% based on ROCE. Share price underpin
DAB matching awards	Final award in February 2014 in relation to the 2013 annual bonus	EPS

Members of the Remuneration Committee

The following Non-Executive Directors were members of the Remuneration Committee during 2013:

Martina King (Chair), Gillian Sheldon and Paul Bowtell.

The Committee met five times during 2013 and the attendance of the Committee is shown on page 65.

Key activities undertaken during 2013

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

- approval of the 2012 Directors' remuneration report
- review of bonus and share plan performance measures against the 2012 year-end targets
- review of the Committee's terms of reference
- approval of the Remuneration Policy Statement as required under the FCA's Remuneration Code
- review and approval of all awards made under the Long Term Incentive Plan (LTIP) and Deferred Annual Bonus (DAB) plan, taking into account the total value of awards made under these plans
- review of Executive Directors' shareholdings and levels achieved
- 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
- setting of targets for 2014 cash bonuses and deferred bonus
- review of targets under the DAB and the LTIP
- review of the retirement of Paul Pindar and remuneration for Andy Parker and Dawn Marriott-Sims
- a review of the total remuneration structure for Executive Directors
- consideration of advisory bodies' and institutional investors' current guidelines on executive compensation.

Performance and reward in 2013

2013 was a year of strong sales, operational and financial performance. The Group's financial results illustrate our ability to deliver strong sustainable growth. During the year the Group successfully made 13 acquisitions. Reporting record profits for the 25th successive year, demonstrates the strength of our business model, the strong and effective leadership of our senior management team and the talents of our people.

As previously disclosed, in November 2013 we completed the disposal of some of our Insurance Distribution operations and closed our SIP (Self Invested Pensions) administration business based in Salisbury. This followed a detailed review which concluded that the route to recovery for these businesses would take a long time and we therefore acted swiftly to resolve this. In 2013, these operations comprised £45m of Group revenue and made a combined operating loss of £14.4m. The combined non-trading cash cost, net of tax, from the sale and closure is £38.5m. The loss on disposal was £82.1m including £62.6m from impairment of goodwill and intangible assets.

The Group's performance is reflected in the annual bonus awarded to the Executive Directors. In respect of performance for the year, 200% of base salary was achieved. Although the targets were met in full the Remuneration Committee has used its discretion that such bonuses will be scaled back due to the partial sale of the insurance distribution business and the closure of the SIP business. The annual bonus for 2013 has therefore been reduced by 25% to 150% of salary. In accordance with the Remuneration Policy, 50% of the bonus achieved has been deferred into shares under the DAB with three-year performance targets (see page 90), strongly linking the interests of the Executive Directors with those of the Group's shareholders. The remaining amount will be paid in cash.

Remuneration Committee discretion

The Remuneration Committee has exercised its discretion in relation to the retirement of Paul Pindar and also in respect of the bonus awards for the period to 31 December 2013. Specifically the discretion has been used in relation to:

Long Term Incentive Plan – Paul Pindar – Under the rules of the plan the Board (delegated to the Remuneration Committee) will determine the proportion of the awards that shall vest upon retirement. For this award it has been pro-rated in line with service, but continues to be subject to the same performance conditions.

Co Investment Plan – Paul Pindar – Under the rules of the plan the Remuneration Committee may, at its discretion, allow the participant to exercise if the participant is no longer employed with the Company. Using this discretion the award was prorated in line with service and is subject to the same performance conditions.

Bonus – All Executives – Although the bonus targets were met in full, the Remuneration Committee has used its discretion such that bonuses will be scaled back due to the partial sale of the insurance distribution business and the closure of the SIP business. The annual bonus for 2013 has therefore been reduced by 25% to 150% of salary.

The Remuneration Committee has not exercised any further discretion during the year.

On behalf of the Committee I recommend this remuneration report to you.

Martina King
Chair of the Remuneration Committee

Remuneration Policy

This part of the remuneration report sets out the Company's Remuneration Policy (the 'Policy') and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Policy has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our major shareholders and describes the policy to be applied from the date of its approval onwards. The Policy will be put to a binding shareholder vote at the 2014 AGM to be held on 12 May 2014 and, subject to shareholder approval, will take formal effect from the conclusion of the AGM.

Policy overview

The Committee is responsible, on behalf of the Board, for establishing appropriate remuneration arrangements for the Executive Directors and other senior management in the Group.

In setting the Remuneration Policy for the Executive Directors, the Committee ensures that the arrangements are in the best interest of both the Group and its shareholders, by taking into account the following general principles:

- to ensure total remuneration packages are simple and fair in design so that they are valued by participants
- to ensure that total remuneration is highly performance orientated
- to balance performance-related pay between the achievement of financial performance objectives and delivering sustainable performance; creating a clear connection between performance and reward and providing a focus on sustained improvements in profitability and returns
- to provide a significant proportion of performance-linked pay in shares allowing senior management to build a significant shareholding in the business and, therefore, aligning management with shareholders' interests and the Group's performance, without encouraging excessive risk-taking.

Consideration of shareholder views

The Company is committed to maintaining good communications with investors. The Committee considers the AGM to be an opportunity to meet and communicate with investors, giving shareholders the opportunity to raise any issues or concerns they may have. In addition, the Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be proposed to the Policy.

In formulating the Policy and the changes to the remuneration structure for Executive Directors for 2014, letters containing our draft proposals were sent to our top 10 shareholders who represented more that 50% of our shares held and also to the industry bodies. Meetings were offered and were held with the majority of those contacted. We received overwhelming support for the changes proposed for 2014.

Policy table

The following table sets out the key aspects of the Policy.

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Base salaries	To attract and retain talent by ensuring base salaries are sufficiently competitive.	Normally reviewed annually in December with any changes usually effective in January. Review takes into account: • salaries in similar companies and comparably-sized companies • Remuneration Policy • economic climate • market conditions • Group performance • the role and responsibility of the individual Director • employee remuneration across the broader workforce. The Committee may award salary increases at other times of the year if it considers it to be appropriate.	• There is no prescribed maximum monetary annual increase to base salaries • The Committee is guided by the general increase for the broader workforce but on occasion may recognise an increase in certain circumstances such as, assumed additional responsibility, an increase in the scale or scope of the role. Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary • The Committee may award salary increases at other times of the year if it considers it to be appropriate.	• Individual and business performance are considerations in setting base salaries.

Policy table (continued)

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Annual Bonus and Deferred Annual Bonus (DAB) Plan	• Performance measures are selected to focus Executives on delivery of the Group business plan for the financial year.	• The bonus scheme is reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year • Performance against targets is reviewed following completion of the final accounts for the period under review • 50% of any bonus earned is delivered in shares deferred for three years under the DAB plan with the remainder delivered in cash or deferred shares at the Executive Director's discretion • Dividends that accrue during the vesting period may be paid in cash or shares at the time of vesting • Clawback provisions apply to DAB for overpayments due to material abnormal write offs of an exceptional basis not included in normal underlying profit before tax and EPS.	• Maximum opportunity of 200% of salary.	• Executive Directors' performance is measured over a one-year period relative to challenging targets for selected measures of Group financial performance • 50% of the bonus will be paid at target performance and 100% for maximum performance. No payment will be made at below target performance.
Long Term Incentive Plan (LTIP)	• Designed to reward and retain Executives over the longer term while aligning their interests with those of shareholders • To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market outperformance • To encourage share ownership and provide further alignment with shareholders.	• LTIP awards are usually granted in the form of nil cost options. • Award levels for each award are set by the Committee at a level appropriate, in the Committee's opinion, with the individual's performance and experience. Performance targets applying to LTIP awards are relevant to business plan priorities and aligned with shareholder interests. • Full details of the operation of the LTIP are set out on page 90 • Vesting dependent on the achievement of performance conditions measured over a three-year period • Performance targets are reviewed annually by the Committee and are set appropriate to the economic and political outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, whilst remaining realistic enough to motivate and incentivise management • Clawback provisions apply to LTIP for overpayments due to material abnormal write offs of an exceptional basis not included in normal underlying profit before tax and EPS.	• The plan limit in respect of a financial year is 165,000 shares or 300% of salary whichever is the higher.	• Performance is measured over a three-year period relative to challenging targets for selected measures of Group financial performance • Full details will be published in the annual report on remuneration for the relevant year • 25% of the awards vest at a threshold vesting point rising to 100% vesting at a maximum vesting point.
Closed Plans Co-Investment Plan	• A one-off plan for Paul Pindar • Designed to reward Paul Pindar over the longer term while aligning his interests with those of shareholders.	• A matching award was made following the pledging of his personal shareholding (£1m) at the time of the award. The pledged shares were made up of shares within his existing holding and also new shares • Clawback provisions apply for overpayments due to misstatement or error and other circumstances.	• Details of the matching award are set out in the annual report on remuneration on page 91. No further awards will be granted under this plan.	• The matching awards have a performance target of total shareholder return compared to the FTSE 100 index over a fixed four-year period and an underlying financial performance underpin • One-third will vest for achieving median TSR and straight-line vesting between median and upper quartile.

Policy table (continued)

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Deferred Annual Bonus Plan – Matching	• Designed to reward and retain Executives over the longer term whilst aligning their interests with those of shareholders.	• A matching award of shares linked to their deferred bonus shares and the matching award is subject to performance targets measured over a three-year period.	• A maximum match of two shares for each gross share deferred under the Annual Bonus Plan.	• An EPS growth target has been used for the plan and the last award will be made in early 2014 in respect of 2013 bonus award • 33% of the awards vest at a threshold vesting point rising to 100% vesting at a maximum vesting point.
Benefits	• Designed to be consistent with benefits available to employees in the Group.	• Benefits include pension provision or allowance, car allowance, private medical insurance, travel and property hire. Executive Directors' can also participate in all-employee share plans • Additional benefits may be provided in future, for example, re-location expenses, which are not currently provided.	• Benefit provision varies between different Executive Directors • Whilst there is no maximum level set by the Committee, benefits provision will be set at a level the Committee considers appropriate and be based on individual circumstances • Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.	• Not performance-related.
Pensions	• Designed to be consistent with benefits available to employees in the Group.	• Pension contributions are paid into the Group's defined contribution scheme • As part of the review it was agreed that where requested the Executive Directors may take a pension allowance of up to 5% of salary rather than payment into a pension.	• 5% of salary either into Capita defined-contribution scheme or as a non-pensionable cash allowance.	• Not performance-related.
Non-Executive Directors' fee	• Set to attract and retain Non-Executive Directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities through the provision of market competitive fees.	• Reviewed periodically by the Board • Fee levels set by reference to market rates, taking into account the individual's experience, responsibility, time commitments and the pay and conditions in the workforce • No NED participate in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit.	• As for the Executive Directors there is no prescribed maximum monetary annual increase. The Committee is guided by the general increase for the broader workforce but on occasion may recognise an increase in certain circumstances, such as assumed additional responsibility or an increase in the scale or scope of the role • An aggregate annual sum of £500,000 and increased only to take account of the effect of inflation (or as nearly thereto as is convenient) as measured by the Retail Price Index or such index as the Directors consider appropriate or such other amount as the Company may by ordinary resolution decide.	• Not performance-related.

The annual bonus performance measures are focused on Group financial measures which are selected annually consistent with key priorities for the Group.

The LTIP performance measures, EPS, ROCE and share price performance, reward significant long term returns to shareholders and long term financial growth. Targets are set on sliding scales that take account of internal strategic planning and external market expectations for the Company. Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial outperformance of challenging strategic plans approved at the start of each year.

The Committee operates long term incentive arrangements for the Executive Directors in accordance with their respective rules, the Listing Rules and the HMRC rules where relevant. The Committee, consistent with market practice and the scheme rules, retains discretion over a number of areas relating to the operation and administration of the plans. These include (but are not limited to) the following:

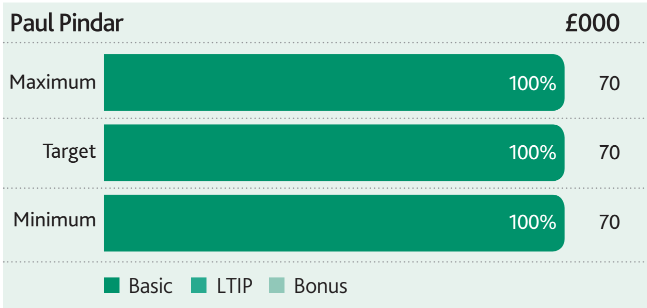
- who participates
- the timing of the grant of award and/or payment
- the size of an award (up to individual and plan limits) and/or a payment
- discretion relating to the measurement of performance in the event of a 'good leaver' scenario or a change of control or reconstruction of the Company
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends)
- the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

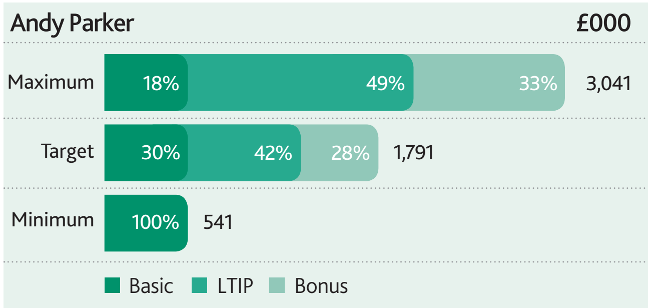
Illustrations of the application of our remuneration policy

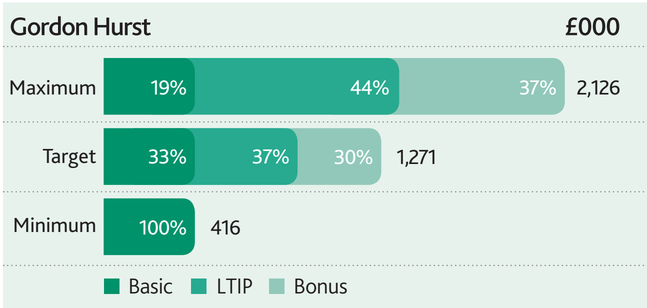
The value and composition of the Executive Directors' remuneration packages for the year ending 31 December 2014 at the minimum performance level, target performance level and maximum performance level are set out in the charts below.

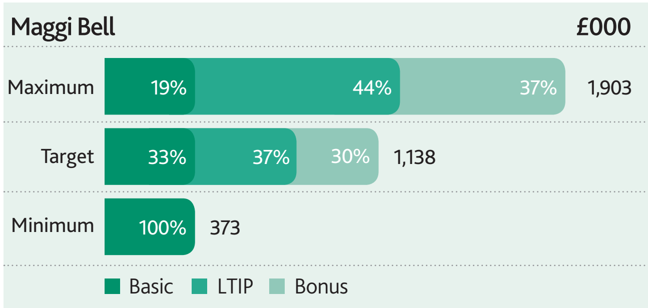
The graphs show an estimate of the remuneration that could be received by the Executive Directors under the Policy set out in this report.

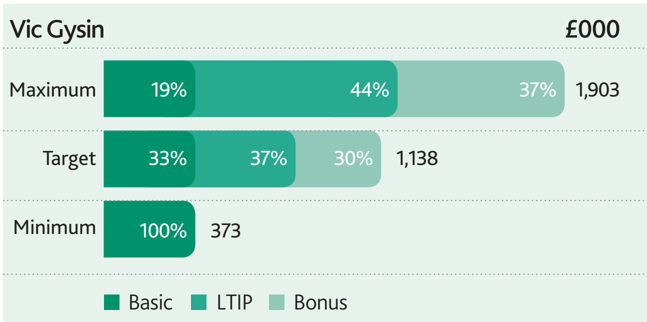
Each Graph is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP.

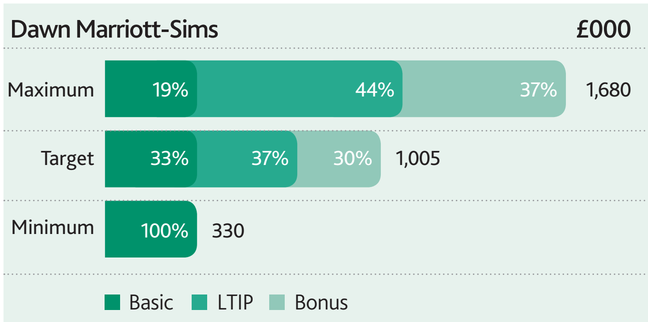












The scenarios in the above graphs are defined as follows:

	Minimum	Performance in line with expectations (Target)	Maximum remuneration receivable (without allowing for share price appreciation)
Fixed elements of remuneration	Base salary as at 1 January 2014 Estimated value of benefits provided under the Remuneration Policy Pension contribution provided under the Remuneration Policy		
Annual bonus – Payout shown as a maximum 0% opportunity	0%	100% of salary	200% of salary
Long Term Incentive Plan – Payout shown as a maximum 0% opportunity	0%	50% of award	100% of award

The Committee considers pay and employment conditions of employees in the Group when determining Executive Directors' remuneration policy

When considering the Executive Directors' remuneration structure and levels, the Committee reviews base salaries and annual bonus arrangements for the management team, to ensure that there is a consistent approach across the Group. The Annual Bonus Plan operates on a similar basis across the senior management team and aims to encourage a high level of employee share ownership. The key difference in the Policy for Executive Directors is that remuneration is more heavily weighted towards long term variable pay than other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors.

The Committee did not formally consult with employees in respect of the design of the Executive Director Remuneration Policy, although the Committee will keep this under review.

Directors' recruitment and promotions

The Committee takes into account the need to attract, retain and motivate the best person for each position, while at the same time ensuring a close alignment between the interests of shareholders and management.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new Executive Directors in the year of recruitment shall be limited to the maximum limit allowed within the Policy table.

If a new Executive Director was appointed, the Committee would seek to align the remuneration package with the Policy approved by shareholders, including the maximum limit for the annual bonus and LTIP set out in the Policy table. However, flexibility would be retained to offer remuneration on appointment outside the Policy if the Committee believe it may be appropriate to make 'buy-out' awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer. The Committee would look to replicate the arrangements being forfeited as closely as possible and in doing so, would take account of relevant factors including the nature of the remuneration and contractual terms, performance conditions and the time over which they would have vested or been paid. The Committee would seek to structure awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the Committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2.

The initial notice period for a service contract may be up to 24 months, which is longer than the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

For an internal appointment, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may also agree that the Company will meet certain re-location and incidental expenses as it considers appropriate.

In the event of the appointment of a new Non-Executive Director, remuneration arrangements will normally be in line with the structure set out in the Policy table for Non-Executive Directors. However, the Committee (or the Board as appropriate) may include any element listed in the Policy table on page 81 to 83, or any other element which the Committee considers is appropriate given the particular circumstances excluding any variable elements, with due regard to the best interests of shareholders.

Directors' service agreements and payments for loss of office

The Committee regularly reviews the contractual terms of the service agreement to ensure these reflect best practice.

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

All Executive Directors' service agreements are terminable on 12-months' notice. In circumstances of termination on notice the Committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The Committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the Director on garden leave for the notice period.

The annual bonus may be payable in respect of the period of the bonus plan year worked by the Director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. This will be at the discretion of the Remuneration Committee.

DAB deferred shares will vest on the date of leaving other than in circumstances of dismissal for gross misconduct.

For entitlement to shares under the deferred annual bonus matching award and long term incentive arrangements, the rules contain discretionary provisions setting out the treatment of awards where a participant leaves for designated reasons (i.e. participants who leave early on account of injury, disability or ill health, death, a sale of their employer or business in which they were employed, statutory redundancy, retirement or any other reason at the discretion of the Committee). In these circumstances, a participant's awards will not be forfeited on cessation of employment and instead will continue to vest on the normal vesting date or earlier at the discretion of the Committee, subject to the performance conditions attached to the relevant awards. The awards will, other than in exceptional circumstances, be scaled back pro rata for the period of the performance period worked by the Director.

In the event of a change of control, all unvested awards under the deferred annual bonus and long term incentive arrangements would vest, to the extent that any performance conditions attached to the relevant awards have been achieved. The awards will, other than if the Committee determines otherwise, be scaled back pro rata for the proportion of the performance period worked by the Director prior to the change of control. For the DAB deferred shares, all will vest on the event of a change of control.

Non-Executive Directors' terms of engagement

Non-Executive Directors are appointed by letter of appointment for an initial period of three years. Each appointment is terminable by three-months' notice on either side. At the end of the initial period, the appointment may be renewed by mutual consent, subject to annual re-election at the AGM.

The service agreements and Non-Executive Directors' letters of appointment are available for inspection during normal business hours at the Company's registered office, and available for inspection at the AGM.

Satisfaction of options

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

Dilution

All awards are made under plans that incorporate the overall dilution limit of 10% in 10 years. The estimated dilution from existing awards, including executive and all-employee share awards, is approximately 6.11% of the Company's share capital as at 31 December 2013.

In drafting this section of the remuneration report, the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

The Committee may make minor amendments to the Policy set out above (for regulatory, exchange control, administrative or tax purposes or to take account of a change in legislation), without obtaining shareholder approval for that amendment.

Annual report on remuneration

This part of the remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2014 AGM. The information on pages 78 to 92 has been audited as indicated.

Responsibilities of the Committee

The Committee is responsible for determining and agreeing with the Board the policy on Executive Directors' remuneration, including setting the over-arching principles, parameters and governance framework and determining the initial remuneration package of each Executive Director. In addition, the Committee monitors the structure and level of remuneration for the senior management team and is aware of pay and conditions in the workforce generally and sets the Chairman's fee.

Members and activities of the Remuneration Committee

The members of the Remuneration Committee during 2013 were Martina King (Chair), Gillian Sheldon and Paul Bowtell. All members were Non-Executive Directors. None of the Committee members have day-to-day involvement with the business nor do they have any personal financial interest, except as shareholders, in the matters to be recommended. The Deputy Company Secretary acts as Secretary to the Committee. The number of formal meetings held and the attendance by each member is shown in the table on page 65. The Committee also held informal discussions as required.

External advice received

Deloitte LLP was, following a review, appointed by the Remuneration Committee during 2012 to provide advice on executive remuneration matters. During the year, the Committee received independent and objective advice from Deloitte primarily on market practice and in relation to the restructuring of executive remuneration packages. Deloitte was paid £53,000 in fees during 2013 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the executive remuneration practice, has provided services to the Group in respect of tax, property, advice to internal audit and other ad hoc advisory projects during the year.

The fees were considered as appropriate for the work undertaken and all fees were disclosed prior to the work being undertaken. Where appropriate, fees were tendered with other providers to ensure that the fees were in line with market practice and standards.

The Committee also consulted with Paul Pindar and Andy Parker to provide further information to the Committee on the performance and proposed remuneration for the Executive Directors and other senior management, but not in relation to their own remuneration.

Shareholder voting at AGM

The 2013 Directors' remuneration report will be presented to shareholders at the AGM in May 2014. At the AGM in 2013 the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2012 was:

AGM 2013	Votes cast 'For'	Votes cast 'Against'	Abstentions*
Remuneration report for the year ended 31 December 2012	471m 96%	15m 4%	9.03m

* A vote abstained is not a vote in law and is not counted in the calculation of the proportion of votes 'for' and 'against' as resolution.

Statement of implementation of the Remuneration Policy for 2014

Base salary

As explained on page 78 of this report, a consultation on remuneration was undertaken in late 2013. Our Remuneration Policy is for executive pay to be highly performance-orientated with fixed pay (salary and benefits) set around the market lower quartile. However, our 2013 Executive Director salaries are inconsistent with that policy, being significantly below the market lower quartile. The Board is firmly of the view that retention of the current management team is vital to the continuation of the success of the Company. The Committee believes that an important factor in securing their retention will be ensuring that they regard their pay arrangements, and in particular their salaries, as fair and appropriately competitive. In determining the salaries, the Committee considered the overall total pay to the Executive Directors. As part of the review, total variable pay has been reduced significantly as explained earlier.

The salary of the new CEO remains significantly below the lower quartile in recognition of his new appointment and relative inexperience in the role. The new COO (Dawn Marriott-Sims) has a starting salary that has been set deliberately below that of the other Directors and, therefore, below the lower quartile. In both cases, subject to their performance in role, the Committee may look to increase their salaries closer to the market lower quartile in future years.

Accordingly base salary for 2014 will be:

	Base salary from 1 January 2014 £
Paul Pindar[1]	£390,000
Andy Parker	£500,000
Gordon Hurst	£380,000
Maggi Bell	£340,000
Vic Gysin	£340,000
Dawn Marriott-Sims	£300,000

Notes

[1] Paul Pindar retired on 28 February 2014 and has only been paid 2/12 of £390,000 for 2014.

Fees for the Chairman and Non-Executive Directors

A summary of the fees for 2014 are as follows:

	Fee from 1 January 2014 £
Martin Bolland – Chairman	200,000
Gillian Sheldon – Senior Independent Director	72,000
Paul Bowtell – Audit & Risk Committee Chair	62,000
Martina King – Remuneration Committee Chair	62,000

Annual bonus for 2014

For 2014 the annual bonus opportunity will be 200% of base salary. The annual bonus will continue to be based against financial performance of underlying profit before tax of the Group.

The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year as these include items which the Committee considers to be commercially sensitive.

50% of the bonus payable will be paid in cash and 50% will be deferred into shares.

Long term incentive to be granted in 2014

For the LTIP award to be granted in 2014, Andy Parker will be awarded shares with a value at grant of 300% of salary and the other Executives 250% of salary. The performance conditions for this award will be:

- EPS: 18.75% vests for 6% p.a. EPS growth increasing to 75% vesting for 12% p.a. EPS growth
  2016 EPS compared to 2013 EPS
- ROCE: 6.25% vests for average ROCE of 14% increasing to 25% vesting for average ROCE of 16%
  Average ROCE over 2014, 2015 and 2016 financial years.

The performance period will run from 1 January 2014 to 31 December 2016.

Share price underpin: Capita's average share price at vesting must not be below the average share price at the date of grant.

A full definition of ROCE is shown on page 43 of the strategic report.

Directors' remuneration earned in 2013 – single figure table (audited)

The table below summarises Directors' remuneration received in 2013.

Single figure remuneration

		Base salary and fees	Benefits	Pension or pension allowance	Annual bonus	LTIP	DAB – Match	Total long term incentives	Total remuneration
Martin Bolland	2013	200,000	–	–	–	–	–	–	200,000
	2012	200,000	–	–	–	–	–	–	200,000
Paul Pindar	2013	390,000	16,327	19,500	585,000	864,571	333,164	1,197,735	2,208,562
	2012	380,000	8,130	19,000	760,000	619,262	251,841	871,103	2,038,233
Andy Parker	2013	297,917	31,485	14,896	487,500	419,186	168,799	587,985	1,419,782
	2012	230,000	30,310	13,800	460,000	224,210	31,869	256,079	990,189
Gordon Hurst	2013	290,000	17,675	14,500	435,000	628,779	244,323	873,102	1,630,277
	2012	280,000	17,610	14,000	560,000	450,055	184,540	634,595	1,506,205
Maggi Bell	2013	240,000	15,408	239	360,000	628,779	199,893	828,672	1,444,319
	2012	230,000	15,408	–	460,000	405,055	150,992	556,047	1,261,455
Vic Gysin	2013	260,000	89,346	13,000	390,000	419,186	168,799	587,985	1,340,331
	2012	230,000	97,759	11,500	460,000	224,210	120,791	345,001	1,144,260
Gillian Sheldon	2013	70,000	–	–	–	–	–	–	70,000
	2012	20,000	–	–	–	–	–	–	20,000
Paul Bowtell	2013	60,000	–	–	–	–	–	–	60,000
	2012	60,000	–	–	–	–	–	–	60,000
Martina King	2013	60,000	–	–	–	–	–	–	60,000
	2012	60,000	–	–	–	–	–	–	60,000

Base salary includes base salary plus fixed cash allowances which are a normal part of the fixed remuneration package and usual local practice.
Benefits include private medical insurance, company car allowance, work travel and accommodation. These benefits are not pensionable.
The annual bonus for 2013 was based on performance against financial target of underlying profit before tax.
Andy Parker was promoted to Deputy Chief Executive from 1 June 2013 and his salary was increased to £325,000.
Paul Pindar was additionally paid £100,000 in 2013 in his position as Chairman of Integrated Dental Holdings.
Performance targets for the LTIP were EPS+RPI and we achieved growth of 7.05% per annum above RPI which has meant vesting of 50.48%.
Performance targets for the DAB were EPS+RPI and we achieved growth of 7.05% per annum above RPI which has meant vesting of 58.53%.
Price for Long Term Incentives was £10.38 on the 31 December 2013.
Vic Gysin's benefits included accommodation and travel of which income tax assessed by HMRC as payable on those were £40,000 and £33,041 respectively.

For the year ending 2013 (paid in 2014), each Executive Director was awarded a bonus of 150% of base salary. The bonuses are awarded on the achievement of an annual target based on underlying profit before tax. The actual target range has not been disclosed as this is considered by the Board to be commercially sensitive information. Although full achievement of the annual target was met on an underlying basis, the Remuneration Committee decided that the bonus should be scaled back. This was due to the exceptional item in respect of the sale of the insurance distribution business and the closure of the SIP business. This is explained further in note 4 on page 105 and in note 25 on page 119. The bonus has been split between 50% of salary payable in cash and the remaining 50% in Deferred Shares under the DAB. This is a reduction of 25% of the total bonus that would otherwise have been awarded.

The DAB also includes a matching award of up to two shares for each deferred share dependent on achievement of certain performance criteria over a three-year period. The bonus for the year therefore reflects the performance of the Company and has been weighted towards long term share based incentives, strongly linking the interests of the Executive Directors with those of the Group's shareholders.

Long term incentive awards awarded in 2013 (audited)

Name of Director	LTIP award	Face value of LTIP award[1]	DAB matching award	Face value of DAB award
Paul Pindar	165,000	£1,358,775	92,288	£759,992
Andy Parker	120,000	£988,200	55,858	£459,991
Gordon Hurst	120,000	£988,200	68,002	£559,996
Maggi Bell	120,000	£988,200	55,858	£459,991
Vic Gysin	120,000	£988,200	111,718	£919,998
Dawn Marriott-Sims	40,000	£329,400	21,856	£179,984

1 The price on grant was £8.235.

LTIP and DAB matching awards were granted as nil cost options. LTIP awards were awarded as a pre-defined number of shares as was the prevailing policy up to 2013. DAB matching awards were granted at a maximum ratio of 2:1 to the annual bonus deferred by Directors in relation to the 2012 financial year. LTIP and DAB matching awards are subject to EPS performance over the three-year period to 31 December 2015 with LTIP awards also subject to a share price underpin. 33% of DAB matching awards and 20% of LTIP awards vest for achieving threshold EPS performance. Full details of the performance conditions relating to these awards are outlined on page 90.

Directors' interests and shareholding guidelines (audited)

Executive Directors are asked to hold 100% of salary in shares in the Company. This is built up over a period of five years from appointment. The guidelines include shares held beneficially and also shares within the DAB that have been deferred over the three-year period. Share awards that are subject to performance conditions are not included.

Director	Beneficially held interests at 31 December 2013	Beneficially held interests at 31 December 2012[2]	Interests in share incentive schemes, awarded without performance conditions at 31 December 2013	Interests in share incentive schemes, awarded without performance conditions at 31 December 2012	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2013	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2012	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2013	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2012	Percentage of shareholding target requirement at 31 December 2013[3]
Martin Bolland	55,000	55,000	–	–	–	–	–	–	–
Paul Pindar	856,613	878,349	82,703	58,295	1,054,213	1,017,188	–	600,000	100%
Andy Parker	–	–	46,452	23,189	403,642	274,783	–	–	48%
Gordon Hurst	25,158	40,891	61,767	61,581	468,217	440,740	–	–	100%
Maggi Bell	73,542	86,584	49,864	34,977	448,760	426,059	–	–	100%
Vic Gysin	–	10,433	74,382	28,956	459,502	294,310	–	50,000	100%
Dawn Marriott-Sims[1]	227	–	11,155	–	141,856	–	–	–	20%
Gillian Sheldon	–	–	–	–	–	–	–	–	–
Paul Bowtell	–	–	–	–	–	–	–	–	–
Martina King	717	717	–	–	–	–	–	–	–

1 Appointed 1 January 2014.

2 The 2012 figures included shares held beneficially in the DAB which have now been released.

3 Based on salary from 1 January 2014.

Between the end of the financial year and 28 February 2014, Gordon Hurst and Dawn Marriott-Sims acquired 27 and 31 shares under the Capita Share Ownership Plan, increasing their beneficial interest in ordinary shares of the Company to 25,185 and 258 respectively.

Share plans (audited)

Plan name: Deferred Annual Bonus (DAB) plan

The DAB is split into two elements:

Deferred award – this is the deferred element of an individual's bonus. Any deferral is made on a gross basis into Deferred Shares or as a net restricted share award. The Deferred Shares are held for a period of three years from the date of award. This part is not subject to performance conditions.

Matching award – this is awarded at a ratio of two shares for each gross share awarded under the deferred award. Matching awards vest after a three-year holding period to the extent to which performance criteria have been met.

Once the award is made in February 2014 in respect of the bonus in 2013 it is not planned to award any further matching awards under this plan going forward.

Unvested DAB matching awards at 31 December 2013 (audited)

	2011 award	2012 award	2013 award	Total
Paul Pindar	54,838	No award made	92,288	147,126
Andy Parker	27,784	No award made	55,858	83,642
Gordon Hurst	40,215	No award made	68,002	108,217
Maggi Bell	32,902	No award made	55,858	88,760
Vic Gysin	27,784	No award made	111,718	139,502
Dawn Marriott-Sims	–	–	21,856	21,856

Unvested DAB deferred awards at 31 December 2013 (audited)

	2011 award	2012 award	2013 award	Total
Paul Pindar	36,559	No award made	46,144	82,703
Andy Parker	18,523	No award made	27,929	46,452
Gordon Hurst	26,810	No award made	34,001	60,811
Maggi Bell	21,935	No award made	27,929	49,864
Vic Gysin	18,523	No award made	55,859	74,382
Dawn Marriott-Sims	–	No award made	10,928	10,928

Performance criteria

2010

EPS growth of RPI + 4% p.a. – 33% of the award vests.

EPS growth of RPI +14% p.a. – 100% of the award vests.

Straight-line vesting occurs between these points.

2011 onwards

EPS growth of RPI + 4% p.a. – 33% of the award vests.

EPS growth of RPI +12% p.a. – 100% of award vests.

Straight-line vesting occurs between these points.

Plan name: Long Term Incentive Plan (2008 LTIP)

At the Annual General Meeting in 2008 the Long Term Incentive Plan (LTIP) was approved by shareholders. Under the plan rules the Committee can award up to the higher of three times salary or 165,000 shares.

The vesting of awards will depend on performance measured over a three-year period.

Unvested LTIP awards at 31 December 2013 (audited)

	2011 award	2012 award	2013 award	Total
Paul Pindar	165,000	165,000	165,000	495,000
Andy Parker	80,000	120,000	120,000	320,000
Gordon Hurst	120,000	120,000	120,000	360,000
Maggi Bell	120,000	120,000	120,000	360,000
Vic Gysin	80,000	120,000	120,000	320,000
Dawn Marriott-Sims	40,000	40,000	40,000	120,000

Performance criteria

2010

EPS growth of RPI + 4% p.a. – 20% of the award vests.

EPS growth of RPI +14% p.a. – 100% of the award vests.

Straight-line vesting occurs between these points.

2011–2013

EPS growth of RPI + 4% p.a. – 20% of the award vests.

EPS growth of RPI +12% p.a. – 100% of the award vests.

Straight-line vesting occurs between these points.

From 2014 awards will have performance conditions as detailed below:

- EPS: 18.75% vests for 6% p.a. EPS growth increasing to 75% vesting for 12% p.a. EPS growth
- ROCE: 6.25% vests for average ROCE of 14% increasing to 25% vesting for average ROCE of 16%.

For all LTIP awards, Capita's average share price at vesting must not be below the average share price at the date of grant.

Plan name: Co-Investment Plan (CIP)

The Co-Investment Plan (CIP) was approved and adopted at the Annual General Meeting on 10 May 2011 as a one-off plan for Paul Pindar.

The CIP is split into two elements. Paul Pindar pledged the value of £1m of shares, made up of new and existing shares. These Pledged Shares do not have any performance conditions as they are part of Paul Pindar's personal shareholding.

The second part was awarded in May 2011 as a matching award with performance conditions over a four-year period.

No further awards are planned under the CIP.

Unvested co-investment award at 31 December 2013

	2011 award
Paul Pindar	412,087

Performance criteria

Capita's TSR over the performance period to be at upper quartile to the constituents of the FTSE 100 Index.

One-third will vest for achieving median TSR and straight-line vesting between median and upper quartile.

There will be no vesting of the matching award below median TSR.

Vesting will also be subject to the Committee being satisfied with the underlying financial performance of the Company over the performance period.

Executive Directors' service agreements

Details of the service agreements are set out below:

Executive Directors	Date of contract	Notice period
Paul Pindar	17 December 2007	12 months
Andy Parker	10 January 2011	12 months
Gordon Hurst	17 December 2007	12 months
Maggi Bell	1 August 2008	12 months
Vic Gysin	10 January 2011	12 months
Dawn Marriott-Sims	1 January 2014	12 months

Non-Executive Directors' terms of engagement

In 2013 four Non-Executive Directors were considered to be independent of the Company.

Non-Executive Directors	Date of joining the Board	Expiry date of current 3-year appointment
Martin Bolland	1 March 2008	Not applicable
Gillian Sheldon	1 September 2012	31 August 2015
Martina King	1 January 2005	Retiring AGM 2014
Paul Bowtell	28 June 2010	27 June 2016

Payments to former Directors (audited)

No payments (other than regular pension benefits and legacy share plan maturities which were commenced in previous years) were made during the year ended 31 December 2013 to any past Director of the Company.

Payments for loss of office (audited)

No payments were made in respect of loss of office to Directors during the year ended 31 December 2013.

Statement of change in pay of Chief Executive compared with other employees

The table below shows base compensation, benefits and annual bonus for the CEO in the 2013 financial year, compared to that for the average employees.

	Chief Executive		All employees
	To 31 December 2013 £	Change 2012 v 2013 %	Change 2012 v 2013 %
Salary	390,000	2.5	2.3
Benefits	16,327	49.7	2.3
Bonus	585,000	(23.0)	8.0

Relative importance of the spend on pay

The table below shows the spend on staff costs in the 2013 financial year, compared to dividends:

	2013 £m	2012 £m	% change
Staff costs	1,780	1,513	17.7
Dividends	159.1	138.1	15.2

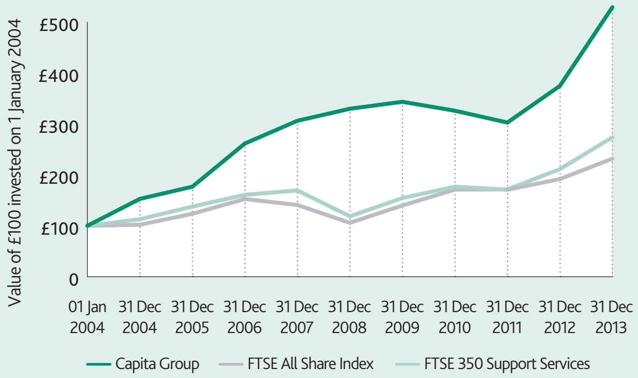
Performance graph and CEO pay

Capita has maintained strong TSR performance over a sustained period.

The following charts compare the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All Share Index and the FTSE 350 Support Services Index, assuming that all dividend income is re-invested.

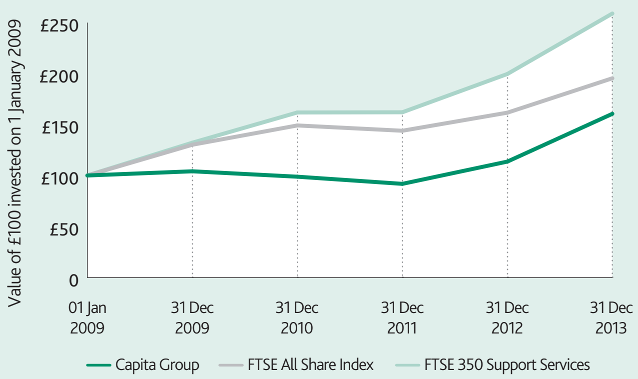
The Committee is of the opinion that this comparison provides a clear picture of the performance of the Group relative to both a wide range of companies in the UK and also a specific group of companies within the same sector. Over the 10-year period to 31 December 2013, £100 invested in Capita on 1 January 2004 would be worth £529 at 31 December 2013 compared to £232 for an investment in the FTSE All-Share Index and £274 for an investment in the FTSE 350 Support Services Index.

Capita vs. FTSE All Share Index and FTSE 350 Support Services Index
Value of investment of £100 on 1 January 2004



The following chart is the same comparison over a five year period starting 1 January 2009.

Capita vs. FTSE All Share Index and FTSE 350 Support Services Index
Value of investment of £100 on 1 January 2009



The total remuneration figures for the CEO during the 2013 financial year are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus payout and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

Year	CEO – Single figure of total remuneration	Annual bonus payout against maximum opportunity	Long term incentive vesting rates against maximum opportunity
2013	£2,208,562	75%	54.50%
2012	£2,038,233	100%	47.75%
2011	£1,833,308	0%	56.02%
2010	£1,399,675	100%	88.57%
2009	£1,621,793	75%	100%

The vesting rates for the long term incentives are averaged between the LTIP and the DAB vesting rates.

Figures for 2011, 2010 and 2009 are taken from the audited financial statements for those years prepared in accordance with the regulations at the time.

Approval of the Directors' remuneration report

The Directors' remuneration report, including both the Remuneration Policy and the annual report on remuneration, was approved by the Board on 26 February 2014.

Martina King
Chair of the Remuneration Committee

26 February 2014

Accounts

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

Consolidated income statement

for the year ended 31 December 2013

	Notes	2013 Underlying £m	2013 Non-underlying: Business disposal/closure £m	2013 Non-underlying: Other non-underlying £m	2013 Total £m	2012 Restated Underlying £m	2012 Restated Non-underlying £m	2012 Restated Total £m
Continuing operations:								
Revenue	3	3,850.9	45.3	–	3,896.2	3,351.8	–	3,351.8
Cost of sales		2,780.9	46.7	–	2,827.6	2,411.0	–	2,411.0
Gross profit		1,070.0	(1.4)		1,068.6	940.8	–	940.8
Administrative expenses	4/5	553.1	63.2	139.9	756.2	474.1	130.8	604.9
Operating profit	7	516.9	(64.6)	(139.9)	312.4	466.7	(130.8)	335.9
Net finance costs	9	(41.9)	–	26.6	(15.3)	(49.7)	(4.8)	(54.5)
Loss on business disposal	4	–	(82.1)	–	(82.1)	–	–	–
Profit before tax		475.0	(146.7)	(113.3)	215.0	417.0	(135.6)	281.4
Income tax expense	10	(90.3)	14.8	32.4	(43.1)	(85.3)	33.3	(52.0)
Profit for the year		384.7	(131.9)	(80.9)	171.9	331.7	(102.3)	229.4
Attributable to:								
Owners of the Company		389.1	(131.9)	(80.0)	177.2	331.7	(102.3)	229.4
Non-controlling interests		(4.4)	–	(0.9)	(5.3)	–	–	–
		384.7	(131.9)	(80.9)	171.9	331.7	(102.3)	229.4
Earnings per share	11							
– basic		59.40p	(20.14)p	(12.21)p	27.05p	52.12p	(16.08)p	36.04p
– diluted		58.71p	(19.90)p	(12.07)p	26.74p	51.55p	(15.90)p	35.65p

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Notes	2013 £m	2013 £m	2012 Restated £m	2012 Restated £m
Profit for the year			171.9		229.4
Other comprehensive income/(expense):					
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain/(loss) on defined benefit pension schemes	32	10.9		(19.8)	
Income tax effect	10	(9.2)		0.6	
			1.7		(19.2)
Items that will or may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations			0.3		(5.8)
Losses on cash flow hedges arising during the year	26	(10.3)		(11.3)	
Reclassification adjustments for losses/(gains) included in the income statement	26	2.6		(1.2)	
Income tax effect	10	0.9		2.7	
			(6.8)		(9.8)
			(6.5)		(15.6)
Other comprehensive expense for the year net of tax			(4.8)		(34.8)
Total comprehensive income for the year net of tax			167.1		194.6
Attributable to:					
Owners of the Company			172.4		194.6
Non-controlling interests			(5.3)		–
			167.1		194.6

Consolidated balance sheet

as at 31 December 2013

	Notes	2013 £m	2012 Restated £m
Non-current assets			
Property, plant and equipment	13	**419.8**	358.3
Intangible assets	14	**2,330.7**	1,936.8
Financial assets	16	**166.4**	236.2
Deferred taxation	10	**–**	1.3
Trade and other receivables	18	**77.6**	72.7
		2,994.5	2,605.3
Current assets			
Financial assets	16	**3.1**	8.0
Funds assets	23	**100.8**	121.2
Trade and other receivables	18	**892.9**	834.1
Cash	19	**610.8**	747.3
		1,607.6	1,710.6
Total assets		**4,602.1**	4,315.9
Current liabilities			
Trade and other payables	20	**1,023.5**	968.9
Overdrafts	19	**453.0**	440.6
Financial liabilities	22	**79.2**	121.5
Funds liabilities	23	**100.8**	121.2
Provisions	25	**62.2**	32.8
Income tax payable		**52.5**	46.7
		1,771.2	1,731.7
Non-current liabilities			
Trade and other payables	20	**26.5**	12.5
Financial liabilities	22	**1,729.9**	1,539.7
Deferred taxation	10	**7.1**	–
Provisions	25	**52.7**	45.8
Employee benefits	32	**118.4**	108.1
		1,934.6	1,706.1
Total liabilities		**3,705.8**	3,437.8
Net assets		**896.3**	878.1
Capital and reserves			
Issued share capital	27	**13.8**	13.8
Share premium		**491.2**	470.4
Employee benefit trust & treasury shares	27	**(0.4)**	(0.4)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation reserve		**2.0**	1.7
Cash flow hedging reserve		**(24.1)**	(17.3)
Retained earnings		**350.4**	408.1
Equity attributable to owners of the Company		**834.7**	878.1
Non-controlling interests		**61.6**	–
Total equity		**896.3**	878.1

Included in aggregate financial liabilities is an amount of £1,267.3m (2012: £1,370.1m) which represents the fair value of the Group's bonds which should be considered in conjunction with the aggregate value of currency and interest rate swaps of £147.1m included in financial assets and £13.5m included in financial liabilities (2012: £222.4m included in financial assets and £0.3m included in financial liabilities). Consequently, this gives an effective liability of £1,133.7m (2012: £1,148.0m).

The accounts were approved by the Board of Directors on 26 February 2014 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 2013

	Share capital £m	Share premium £m	Employee benefit trust & treasury shares £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2012	13.0	459.4	(0.4)	1.8	50.3	7.5	(7.5)	524.1	–	524.1
Profit for the year – restated	–	–	–	–	229.4	–	–	229.4	–	229.4
Other comprehensive expense – restated	–	–	–	–	(19.2)	(5.8)	(9.8)	(34.8)	–	(34.8)
Total comprehensive income for the year	–	–	–	–	210.2	(5.8)	(9.8)	194.6	–	194.6
Share based payment	–	–	–	–	9.1	–	–	9.1	–	9.1
Deferred income tax relating to share based payments	–	–	–	–	6.2	–	–	6.2	–	6.2
Shares issued	0.8	11.0	–	–	270.4	–	–	282.2	–	282.2
Equity dividends paid	–	–	–	–	(138.1)	–	–	(138.1)	–	(138.1)
At 1 January 2013	13.8	470.4	(0.4)	1.8	408.1	1.7	(17.3)	878.1	–	878.1
Profit for the year	–	–	–	–	177.2	–	–	177.2	(5.3)	171.9
Other comprehensive expense	–	–	–	–	1.7	0.3	(6.8)	(4.8)	–	(4.8)
Total comprehensive income for the year	–	–	–	–	178.9	0.3	(6.8)	172.4	(5.3)	167.1
Share based payment	–	–	–	–	10.5	–	–	10.5	–	10.5
Deferred income tax relating to share based payments	–	–	–	–	8.0	–	–	8.0	–	8.0
Shares issued	–	20.8	–	–	–	–	–	20.8	–	20.8
Equity dividends paid	–	–	–	–	(159.1)	–	–	(159.1)	–	(159.1)
Put option of non-controlling interest	–	–	–	–	(96.0)	–	–	(96.0)	–	(96.0)
Acquisition of subsidiary with non-controlling interest	–	–	–	–	–	–	–	–	66.9	66.9
At 31 December 2013	13.8	491.2	(0.4)	1.8	350.4	2.0	(24.1)	834.7	61.6	896.3

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising $2\frac{1}{15}$p ordinary shares.

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

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

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

Foreign currency translation reserve – Gains or losses resulting from the process of expressing amounts denominated or measured in 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.

Cash flow hedging reserve – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

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

Non-controlling interests – This represents the equity in a subsidiary that is not attributable directly or indirectly to the parent company.

Consolidated cash flow statement

for the year ended 31 December 2013

	Notes	2013 £m	2012 Restated £m
Cash flows from operating activities			
Operating profit on continuing activities		312.4	335.9
Adjustments for non-cash items:			
Depreciation	13	74.1	71.7
Accelerated depreciation on business closure	13	6.0	–
Amortisation of intangible assets (treated as depreciation)	14	3.3	1.2
Amortisation of intangible assets recognised on acquisition	14	122.2	95.3
Accelerated amortisation of intangible assets on business closure	14	0.2	–
Share based payment expense	28	10.5	9.1
Employee benefits	32	2.2	(1.9)
Non-underlying items	5	1.7	25.2
Loss/(profit) on sale of property, plant and equipment	7	2.1	(0.1)
Movement in provisions (net)	25	32.0	(18.2)
Net movement in payables and receivables		(28.4)	(3.1)
Cash generated from operations before settlements		538.3	515.1
Arch Cru	5	(1.2)	–
Settlement of Cumbria County Council pension deficit	32	–	0.8
Cash generated from operations		537.1	515.9
Income tax paid		(52.9)	(62.3)
Net interest paid		(37.2)	(46.0)
Net cash inflow from operating activities		447.0	407.6
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(128.2)	(95.5)
Purchase of intangible assets	14	(16.9)	(5.8)
Proceeds from sale of property, plant and equipment		1.2	1.4
Acquisition of public sector subsidiary partnerships	17	(38.9)	–
Debt repaid on the acquisition of public sector subsidiary partnerships	17	(9.1)	–
Acquisition of other subsidiary undertakings and businesses	17	(243.2)	(132.4)
Cash acquired with other subsidiary undertakings	17	15.8	17.6
Debt repaid on the acquisition of other subsidiaries	17	(5.1)	(57.1)
Cash disposed of with other subsidiary undertakings	4	(6.0)	–
Contingent consideration paid	17	(14.4)	(12.0)
Purchase of financial assets		(0.7)	–
Investment loan		0.2	0.3
Net cash outflow from investing activities		(445.3)	(283.5)
Cash flows from financing activities			
Issue of ordinary share capital	27	16.7	284.9
Share transaction costs	27	–	(2.7)
Dividends paid	12	(159.1)	(138.1)
Capital element of finance lease rental payments	9/29	(10.0)	(1.7)
Repayment of term debt	29	(185.0)	(2.3)
Repayment of bonds	29	(88.1)	–
Proceeds on issue of term debt	29	200.0	160.3
Proceeds on issue of bonds	29	75.0	–
Revolving credit facility	29	–	(178.0)
Financing arrangement costs	29	–	(1.5)
Net cash (outflow)/inflow from financing activities		(150.5)	120.9
(Decrease)/increase in cash and cash equivalents		(148.8)	245.0
Cash and cash equivalents at the beginning of the period		306.7	62.4
Impact of movement in exchange rates		(0.1)	(0.7)
Cash and cash equivalents at 31 December		157.8	306.7
Cash and cash equivalents comprise:			
Cash at bank and in hand	19	610.8	747.3
Overdrafts	19	(453.0)	(440.6)
Total		157.8	306.7

Notes to the consolidated financial statements

for the year ended 31 December 2013

1 Corporate information

The consolidated financial statements of Capita plc for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 26 February 2014. Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

The principal activities of the Group are given in the strategic report on pages 1 to 57.

2 Summary of significant accounting policies

Underlying profit

The Group separately presents intangible amortisation, acquisition contingent consideration adjustments, business disposals and closures, acquisition expenses, impairments, movements in the mark to market valuation of certain financial instruments, and specific non-recurring items in the income statement which, in the Directors' judgement, need to be disclosed separately (see notes 4 and 5) by virtue of their size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

Significant accounting judgements, estimates and assumptions

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- the measurement of revenue – the Group makes use of estimates to determine revenue in respect of percentage complete/long term and construction contracts (see (e) and (f) below);
- the measurement of intangible assets other than goodwill in a business combination – this involves estimation of future cash flows and the selection of a suitable discount rate;
- the measurement and impairment of goodwill – the Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated utilising estimation of future cash flows and choosing a suitable discount rate (see note 15);
- the measurement of defined benefit obligations – this requires estimation of future changes in salaries and inflation, as well as mortality rates, future pension increases and the selection of a suitable discount rate (see note 32); and
- the measurement of provisions reflects management's assessment of the probable outflow of economic benefits resulting from an existing obligation. Provisions are calculated on a case-by-case basis and involve judgement as regards the final timing and quantum of any financial outlay – see note 25.

(a) Statement of compliance

The consolidated financial statements of Capita plc and all of its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (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 141 to 147.

(b) Basis of preparation

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

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

The 2012 financial statements have been restated to reflect:

- The adoption of IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) requiring the Group to gross up its cash at bank and overdraft positions and accordingly the statement of financial position has been restated to reflect this;
- The adoption of IAS 19 Employee Benefits (Revised 2011) – IAS 19R resulting in a change to the accounting for interest on plan assets and accordingly the income statement and statement of comprehensive income have been restated; and
- Revisions made to fair value adjustments in the current year that had been determined provisionally at the immediately preceding balance sheet date.

(c) Basis of consolidation

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

All intercompany balances and transactions, including unrealised profits arising from 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 Capita plc has control and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the assets (including goodwill) disposed. 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 standards and amendments to IFRS with an initial date of application of 1 January 2013.

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 19 Employee Benefits (Revised 2011) – IAS 19R
- IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendment to IFRS 7
- IFRS 13 Fair Value Measurement
- Improvements to IFRSs – 2009–2011 Cycle issued in May 2012.

2 Summary of significant accounting policies (continued)

The principal effects of these changes are as follows:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 As a result of the amendments to IAS 1, the Group has modified the presentation of items in its consolidated statement of other comprehensive income to present separately items that would be classified to profit or loss in the future from those that would never be. Comparative information has also been re-presented. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) – IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss (this had no impact on the Group as it had never adopted the 'corridor' approach); expected returns on plan assets are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

In the case of the Group, the transition to IAS 19R has had an impact on both the consolidated income statement and the consolidated statement of other comprehensive income due to the difference in accounting for interest on plan assets. The effect of the adoption of IAS 19R is to reduce profit before tax by £11.0m (2012: £8.6m) and reduce the tax on profit charge by £2.2m (2012: £2.0m), a net impact on profit for the period of £8.8m (2012: £6.6m). There was an equal and opposite effect on the total of other comprehensive income for the period such that there has been no overall change to total comprehensive income for the period nor any change in equity. In addition, the Group has reclassified the interest cost element of the pension charge to finance costs from administrative expenses. The impact of this has been to reclassify as finance costs £4.7m (2012: £3.6m). Comparatives have been restated accordingly.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendment to IFRS 7 The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g. collateral agreements). The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. The amendment has had no impact on the Group's financial position or performance. The Group has grossed up its cash at bank and overdraft positions and the consolidated balance sheet has been restated to reflect this.

IFRS 13 Fair Value Measurement IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures.* In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

Improvements to IFRSs – 2009 – 2011 Cycle issued in May 2012 The International Accounting Standards Board issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

(e) Revenue

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

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

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

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

The following table illustrates revenue recognition policies predominately used in each operating segment. A description of these policies is included in (f) below.

Segment	Ongoing service contracts	Time & material contracts	Brownfield contracts	Percentage complete/long term contracts	Construction contracts	Greenfield contracts
Health & Wellbeing	•	•	•			•
IT Services	•	•	•	•	•	
Justice & Secure Services	•	•	•		•	
Professional Services	•	•	•			•
Property & Infrastructure	•	•	•	•		•
Workplace Services	•	•	•		•	•
Customer Management & International	•	•	•	•	•	
Insurance & Benefits Services	•	•	•			
Asset Services	•	•	•			

(f) Revenue recognition

The principal revenue recognition policies, beginning with the most widely used, are as follows:

Ongoing service contracts

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

Time and materials contracts

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

Brownfield contracts

A Brownfield contract is one where there is a transfer of an existing operation to the Group. All costs incurred prior to service commencement are expensed as incurred and revenue represents income earned in respect of the services provided in accordance with the underlying principle in (e) above.

2 Summary of significant accounting policies (continued)

Greenfield contracts
A Greenfield contract is one in which an entirely new service is being established for a client. Where non-refundable payments are received prior to full service commencement on the achievement of agreed contract delivery milestones, these are recognised as revenue when the associated milestone has been achieved. Direct incremental costs incurred prior to service commencement and reimbursable during the contract, excluding any overheads, are included in prepayments and amortised over the contract's life.

On commencement of service delivery revenue represents income earned in respect of the services provided in accordance with the underlying principle in (e) above.

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

If, on the review of the performance of the contract, a loss is anticipated then the full value of this expected loss to the end of the contract is booked immediately in the income statement.

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

In these contracts these activities are treated separately where appropriate, with the relevant accounting policy for revenue recognition, as detailed previously, being applied to each individual component.

Construction contracts
The Group constructs assets for its customers, which are mainly IT in nature. In line with the requirements of IAS 11 gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

Contract renewals
On the renewal of existing contracts, the Group reviews the circumstances pertinent to each renewed contract to ensure that the correct revenue recognition policies are applied.

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

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

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

The Group has elected not to record cumulative translation differences arising prior to the transition date as permitted by IFRS 1. 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.

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

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

2 Summary of significant accounting policies (continued)

(j) Business combinations and goodwill

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

Acquisitions on or after 1 January 2010

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

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

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

For acquisitions where material changes were made to the fair value of the acquired assets and liabilities within the measurement period, the relevant account balances in the prior year are restated to reflect these changes in accordance with IFRS 3 requirements. Details of these changes are shown in note 17.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the income statement.

Goodwill is initially measured at cost being the excess of the aggregate of the fair value of the consideration transferred and the recognised amount of any non-controlling interests (plus the fair value of any existing equity interest) over the net recognised amount of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

For acquisitions where material changes were made to the fair value of the acquired assets and liabilities within the measurement period, the relevant account balances in the prior year are restated to reflect these changes in accordance with IFRS 3 requirements. Details of these changes are shown in note 17.

Acquisitions between 1 January 2004 (IFRS transition date) and 1 January 2010

For acquisitions between the Group's IFRS transition date of 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement.

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

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

Acquisitions prior to 1 January 2004 (IFRS transition date)

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

Goodwill

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

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (Amended), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(k) Intangible assets

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Group is satisfied as to the technical, commercial and financial viability of individual projects. In these cases, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2012 or 2013. 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.

2 Summary of significant accounting policies (continued)

Intangible assets identified and recognised since transition to IFRS are profiled, on a straight-line basis, as follows:

Acquired intangible assets

- brands are amortised over their useful economic lives of between 5 and 10 years
- I.P., software and licences are amortised over their useful economic lives of between 5 and 20 years
- contracts and committed sales are amortised over their useful economic lives of between 1.5 and 15 years
- client lists and relationships are amortised over their useful economic lives of between 4 and 10 years.

Underlying intangible assets

- capitalised software development costs are amortised over their useful economic lives of between 5 and 15 years
- other intangibles are amortised over their useful economic lives of 15 years

(l) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

(m) Investments and other financial assets

All investments are initially recorded at their fair value. Subsequently, they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Investment loans are measured at amortised cost using the effective interest method.

Available-for-sale financial assets are measured at their fair value with unrealised gains or losses being recognised directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Financial assets at fair value through the income statement (disclosed in investment income) include financial assets designated upon initial recognition as at fair value through the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

(n) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(o) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at their fair value.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. The Group provides, on a discounted basis, for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

(r) Onerous contracts

The Group reviews its long term contracts to ensure that the expected economic benefits to be received are in excess of the unavoidable costs of meeting the obligations under the contract. The unavoidable costs are the lower of the net costs of termination or the costs of fulfilment of the contractual obligations. The Group recognises the excess of the unavoidable costs over economic benefits due to be received as an onerous contract provision.

(s) Pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement as the related service is provided.

In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the income statement.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Remeasurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and reflected immediately in retained

2 Summary of significant accounting policies (continued)

earnings and will not be reclassified to the income statement. The Group determines the net interest expense/income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments.

Current and past service costs are charged to operating profit whilst the net interest cost is included within net finance costs.

In respect of 3 of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only.

The liability on the balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

(t) Financial instruments

The Group uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement and are presented as non-underlying.

Put options on the shares of subsidiaries held by non-controlling interest shareholders that oblige the Group to purchase those shares for cash or another financial asset are recognised as a financial liability for the present value of the option exercise price. When the financial liability is recognised initially, that amount is reclassified from equity, and subsequently measured at amortised cost using the effective interest rate method. Changes in the carrying amount, including the accretion of interest, are recognised in equity.

On exercise of the put options the Group will treat the transaction as the purchase of the non-controlling interest and will apply acquisition accounting as described in (j) Business Combinations and Goodwill – *Acquisitions and disposal of non controlling interest*.

(u) Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and is concerned with whether the fulfilment of the arrangement is dependent upon the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee: Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor: Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income arising from operating leases is recognised in the income statement on a straight-line basis over the lease term.

(v) Income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2 Summary of significant accounting policies (continued)

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.

(w) Share based payments

The Group operates a number of executive and employee share schemes.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The Group 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.

(x) New standards and interpretations not applied

The IASB and the IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements. These are effective for annual periods beginning on or after the date indicated:

		Effective date
International Accounting Standards (IAS/IFRSs)		
Endorsed by the EU:		
IAS 27	Amendment: Separate Financial Statements	1 January 2014
IAS 28	Amendment: Investments in Associates and Joint Ventures	1 January 2014
IAS 32	Amendment: Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 10, IFRS 12, IAS 27	Amendments: Investment Entities	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IFRS 10, 11 and 12	Amendments: Transition Guidance	1 January 2014
IAS 36	Amendments: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39	Amendments: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
Not yet endorsed by the EU:		
IFRS 9	Financial Instruments	To be decided
IAS 19	Amendments: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to IFRSs 2010–2012 Cycle		1 July 2014
Annual Improvements to IFRSs 2011–2013 Cycle		1 July 2014
IFRS Interpretations Committee (IFRIC), not yet endorsed by the EU:		
IFRIC 21	Levies	1 January 2014

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	Underlying 2013 £m	Non-underlying 2013 £m	Total 2013 £m	2012 £m
Rendering of services		**3,740.4**	**45.3**	**3,785.7**	3,257.3
Construction contracts	21	**110.5**	**–**	**110.5**	94.5
Revenue from operating activities		**3,850.9**	**45.3**	**3,896.2**	3,351.8
Finance revenue	9	**0.2**	**–**	**0.2**	0.5
Total revenue		**3,851.1**	**45.3**	**3,896.4**	3,352.3

4 Business disposal/closure

In the year the Group disposed of its insurance distribution businesses and announced the planned closure of its SIP (Self Invested Pensions) administration business.

Income statement impact

		Non-trading disposal/closure			
	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	45.3	–	–	–	45.3
Cost of sales	(46.7)	–	–	–	(46.7)
Gross loss	(1.4)	–	–	–	(1.4)
Administrative expenses	(13.0)	(41.5)	(8.7)	(50.2)	(63.2)
Operating loss	(14.4)	(41.5)	(8.7)	(50.2)	(64.6)
Loss on business disposal	–	(6.0)	(76.1)	(82.1)	(82.1)
Loss before tax	(14.4)	(47.5)	(84.8)	(132.3)	(146.7)
Taxation	3.2	9.0	2.6	11.6	14.8
Loss after tax	(11.2)	(38.5)	(82.2)	(120.7)	(131.9)

Trading revenue and costs represent the current year trading performance of these businesses.

Non-trading disposal and closure costs include the costs of running off the policies in the SIP business and the ongoing stranded costs such as property lease and redundancy payments. It is expected these expenses will be incurred over 2 years – see note 25.

Included within non-trading administrative expenses in the table above are:

	£m
Provision made in respect of disposal and closure costs	41.5
Assets written off used exclusively for the activities disposed of/closed	8.7
Total	50.2

The table below summarises the loss on disposal:

	£m
Property, plant and equipment	3.1
Trade and other receivables (excluding accrued income) due in less than 1 year	46.4
Accrued income due in less than 1 year	4.8
Cash	6.0
Trade payables due in less than 1 year	(5.0)
Other payables due in less than 1 year	(35.6)
Intangible assets	4.8
Goodwill	57.6
Total net assets disposed of	82.1
Net proceeds received	–
Loss on business disposal	82.1

Consideration was comprised of £1.

5 Administrative expenses

Included within administrative expenses in the non-underlying column are:

	Notes	2013 £m	2012 £m
Non-underlying, non-cash items:			
Intangible amortisation	14	122.2	95.3
Contingent consideration movements (net of goodwill impairment in 2012)		1.7	10.2
Arch Cru		0.5	–
Impairment of Optima investment loan		–	15.0
		124.4	120.5
Non-underlying, cash items:			
Professional fees re acquisitions		12.9	9.6
Stamp duty paid on acquisitions		1.4	0.7
Arch Cru		1.2	–
		15.5	10.3
Total		139.9	130.8

The Group has paid additional costs of £1.2m during the year and has made provision for further costs of £0.5m in relation to Arch Cru. Having given due consideration to the ongoing activity in this case the Group considered it prudent to set aside an amount to cover legal fees that may be incurred in dealing with this matter.

6 Segmental information

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the strategic report on pages 1 to 57. No operating segments have been aggregated to form the reportable operating segments below. The information disclosed below represents the way in which the results of the businesses are reported to the Group Board. The comparative figures have been restated due to a reorganisation of the Group's business segments during the year and a consequent change in the way in which the results of the businesses are reported to the Group Board.

Before eliminating sales between business units on consolidation, the Group accounts for sales between business units as if they were to a third party at market rates.

The tables below present revenue, result and certain asset and liability information for the Group's business segments for the years 2013 and 2012. All operations are continuing.

Year ended 31 December 2013

	Health & Wellbeing £m	IT Services £m	Justice & Secure Services £m	Professional Services £m	Property & Infrastructure £m	Workplace Services £m	Asset Services £m	Customer Management & International £m	Insurance & Benefits Services £m	Total £m
Segment revenue										
– Underlying										
Total segment revenue	187.6	590.4	425.4	666.8	297.3	597.5	257.3	518.9	762.2	4,303.4
Inter-segment revenue	(24.8)	(132.8)	(14.0)	(110.3)	(20.0)	(31.5)	(10.7)	(13.2)	(95.2)	(452.5)
Third party revenue	162.8	457.6	411.4	556.5	277.3	566.0	246.6	505.7	667.0	3,850.9
– Non-underlying trading[1]	–	–	–	–	–	–	–	–	45.3	45.3
Total segment revenue	162.8	457.6	411.4	556.5	277.3	566.0	246.6	505.7	712.3	3,896.2
Segment result										
– Underlying										
Result after depreciation	22.2	25.5	66.4	131.2	16.0	75.0	65.3	64.1	61.7	527.4
Share based payment	(0.4)	(0.5)	(1.5)	(2.7)	(0.3)	(1.5)	(1.3)	(1.2)	(1.1)	(10.5)
Underlying trading result	21.8	25.0	64.9	128.5	15.7	73.5	64.0	62.9	60.6	516.9
– Non-underlying trading[1]	–	–	–	–	–	–	–	–	(14.4)	(14.4)
Total trading result	21.8	25.0	64.9	128.5	15.7	73.5	64.0	62.9	46.2	502.5
Non-trading										
Business disposal & closure costs										(50.2)
Intangible amortisation										(122.2)
Acquisition costs										(14.3)
Contingent consideration movements										(1.7)
Arch Cru										(1.7)
Operating profit										312.4
Net underlying finance costs										(41.9)
Financial instruments – mark to market										25.1
Derivatives own party credit risk – mark to market										0.1
Derivatives counterparty credit risk – mark to market										1.4
Loss on business disposal										(82.1)
Profit before tax										215.0
Income tax expense										(43.1)
Profit for the year										171.9

[1] See note 4

Other segment information

Net assets by segment	Health & Wellbeing £m	IT Services £m	Justice & Secure Services £m	Professional Services £m	Property & Infrastructure £m	Workplace Services £m	Asset Services £m	Customer Management & International £m	Insurance & Benefits Services £m	Total £m
Trade receivables, accrued income & construction contracts	98.3	108.7	80.1	63.6	68.3	134.2	70.1	76.9	125.6	825.8
Deferred income	(4.9)	(44.8)	(25.2)	(99.8)	(19.6)	(13.4)	(8.7)	(9.8)	(31.3)	(257.5)
Matched creditors[2]	–	–	–	–	–	(32.8)	(21.0)	–	–	(53.8)
Net allocated assets	93.4	63.9	54.9	(36.2)	48.7	88.0	40.4	67.1	94.3	514.5
Unallocated assets										3,776.3
Unallocated liabilities										(3,394.5)
Total net assets										896.3
Capital expenditure										
Tangible assets	26.8	20.9	8.7	7.8	1.5	7.1	17.6	10.7	27.1	128.2
Depreciation charge	2.6	14.6	5.7	4.3	2.3	3.6	6.8	5.9	31.6	77.4
Intangible assets	14.2	87.7	110.3	86.6	–	208.5	1.0	62.6	1.7	572.6
Intangible amortisation	12.5	19.9	21.5	10.7	3.6	13.0	8.6	13.4	19.0	122.2

[2] Matched creditors represent those creditors where there is a related trade receivable balance and where as a result management report the net position.

6 Segmental information (continued)

Unallocated assets include property, plant and equipment, intangible assets, financial assets, deferred taxation, other receivables, prepayments, funds receivables and cash. Unallocated liabilities includes trade payables (excluding matched creditors[2]), other payables, other taxes and social security, gross amounts due to customers on construction contracts, accruals, financial liabilities, funds payables, provisions, income tax payable, and employee benefits liability.

The table below presents revenue by geographical location, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

Revenue	**United Kingdom £m**	**Non-United Kingdom £m**	**Total £m**
Total segment revenue	**4,159.4**	**189.3**	**4,348.7**
Inter-segment revenue	**(389.7)**	**(62.8)**	**(452.5)**
Third party revenue	**3,769.7**	**126.5**	**3,896.2**
Other segment information			
Trade receivables, accrued income & construction contracts	**792.0**	**33.8**	**825.8**
Unallocated assets	**3,605.4**	**170.9**	**3,776.3**
Total assets	**4,397.4**	**204.7**	**4,602.1**
Capital expenditure			
Tangible assets	**120.2**	**8.0**	**128.2**
Intangible assets	**571.5**	**1.1**	**572.6**

Year ended 31 December 2012

Segment revenue	Health & Wellbeing £m	IT Services £m	Justice & Secure Services £m	Professional Services £m	Property & Infrastructure £m	Workplace Services £m	Asset Services £m	Customer Management & International £m	Insurance & Benefits Services £m	Total £m
Total segment revenue	198.4	549.6	299.2	550.8	273.4	438.6	250.3	369.6	819.7	3,749.6
Inter-segment revenue	(26.2)	(112.4)	(12.3)	(97.0)	(17.6)	(27.7)	(9.4)	(11.6)	(83.6)	(397.8)
Third party revenue	172.2	437.2	286.9	453.8	255.8	410.9	240.9	358.0	736.1	3,351.8
Segment result										
Underlying										
Result after depreciation	33.0	29.7	42.6	113.6	7.4	55.8	63.9	48.7	81.1	475.8
Share based payment	(0.4)	(0.3)	(0.9)	(2.2)	(0.6)	(1.3)	(0.6)	(0.9)	(1.9)	(9.1)
	32.6	29.4	41.7	111.4	6.8	54.5	63.3	47.8	79.2	466.7
Non-underlying										
Intangible amortisation										(95.3)
Acquisition costs										(10.3)
Loan impairment										(15.0)
Goodwill impairment net of contingent consideration movements										(10.2)
										335.9
Net underlying finance costs										(49.7)
Financial instruments – mark to market										(8.7)
Derivatives counterparty credit risk – mark to market										3.9
Profit before tax										281.4
Income tax expense										(52.0)
Profit for the year										229.4

Other segment information

Net assets by segment	Health & Wellbeing £m	IT Services £m	Justice & Secure Services £m	Professional Services £m	Property & Infrastructure £m	Workplace Services £m	Asset Services £m	Customer Management & International £m	Insurance & Benefits Services £m	Total £m
Trade receivables, accrued income & construction contracts	96.1	80.2	52.7	47.2	62.0	114.0	63.6	56.1	211.0	782.9
Deferred income	(9.6)	(30.3)	(27.7)	(64.4)	(15.4)	(12.3)	(9.1)	(6.9)	(29.8)	(205.5)
Matched creditors[2]	–	–	–	–	–	(32.1)	(20.8)	–	(60.0)	(112.9)
Net allocated assets	86.5	49.9	25.0	(17.2)	46.6	69.6	33.7	49.2	121.2	464.5
Unallocated assets										3,533.0
Unallocated liabilities										(3,119.4)
Total net assets										878.1
Capital expenditure										
Tangible assets	2.8	14.9	3.6	5.3	2.4	3.9	15.7	3.9	44.3	96.8
Depreciation charge	3.0	15.7	4.7	6.5	2.1	3.6	6.5	4.4	26.4	72.9
Intangible assets	47.4	–	63.4	1.0	3.0	39.1	4.8	–	75.3	234.0
Intangible amortisation	10.1	11.5	16.7	8.8	4.3	7.1	8.9	9.1	18.8	95.3

[2] Matched creditors represent those creditors where there is a related trade receivable balance and where as a result management report the net position.

6 Segmental information (continued)

Unallocated assets include property, plant and equipment, intangible assets, financial assets, deferred taxation, other receivables, prepayments, funds' assets and cash. Unallocated liabilities include trade payables (excluding matched creditors2), other payables, other taxes and social security, gross amounts due to customers on construction contracts, accruals, financial liabilities, funds payables, provisions, income tax payable, and employee benefits liability.

The table below presents revenue by geographical location, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

Revenue	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	3,573.5	176.1	3,749.6
Inter-segment revenue	(341.7)	(56.1)	(397.8)
Third party revenue	3,231.8	120.0	3,351.8
Other segment information			
Trade receivables, accrued income & construction contracts	749.5	33.3	782.9
Unallocated assets	3,406.5	126.5	3,533.0
Total assets	4,156.1	159.8	4,315.9
Capital expenditure			
Tangible assets	85.2	11.6	96.8
Intangible assets	230.0	4.0	234.0

7 Operating profit

This is stated after charging/(crediting):

	Notes	2013 £m	2012 Restated £m
Employee benefits expense	8	1,780.9	1,516.5
Amortisation of intangible assets (as shown in the non-underlying column)	14	122.2	95.3
Depreciation	13	74.1	71.7
Accelerated depreciation on business closure	13	6.0	–
Amortisation of other intangible assets (treated as depreciation)[1]	14	3.3	1.2
Accelerated amortisation on business closure	14	0.2	–
Loss/(profit) on sale of property, plant and equipment		2.1	(0.1)
Minimum lease payments recognised as an operating lease expense		98.5	84.2
Foreign exchange differences		(3.2)	(0.4)

[1] Included within operating activities before amortisation.

Fees payable to the Company's Auditor and its associates in respect of:	2013 £m	2012 £m
Audit and audit-related services		
The audit of the Company and Group financial statements	1.7	1.4
The audit of the financial statements of subsidiaries of the Company	0.6	0.5
Total audit and audit-related services	2.3	1.9
Non-audit services		
Taxation compliance services	0.2	0.1
Taxation advisory services	0.2	0.2
Services related to corporate finance transactions	0.5	0.4
Other assurance services	0.4	0.3
Total non-audit services	1.3	1.0
Total audit and non-audit services	3.6	2.9

The amounts included in the above table relate to fees payable to KPMG Audit Plc and its associates.

8 Employee benefits expense

	Notes	2013 £m	2012 Restated £m
Wages and salaries		1,527.6	1,314.2
Social security costs		147.3	122.7
Pension costs	32	95.5	70.5
Share based payments	28	10.5	9.1
		1,780.9	1,516.5

The average number of employees during the year was made up as follows:	2013 Number	2012 Number
Sales	1,954	1,741
Administration	5,658	5,087
Operations	48,856	40,762
	56,468	47,590

The details of Directors' remuneration is contained within the Directors' remuneration report on pages 78 to 92.

9 Net finance costs

	Notes	2013 £m	2012 Restated £m
Bank interest receivable		(0.1)	(0.3)
Other interest receivable		(0.1)	(0.2)
Interest receivable		(0.2)	(0.5)
Bonds		22.9	29.5
Fixed rate interest rate swaps – realised		6.0	9.1
Finance lease		0.8	–
Bank loans and overdrafts		7.7	7.9
Investment expense		–	0.1
Net interest cost on defined benefit pension schemes	32	4.7	3.6
Interest payable		42.1	50.2
Underlying net finance costs		41.9	49.7
Fixed rate interest rate swaps – mark to market	26	(26.3)	8.2
Non-designated foreign exchange forward contracts – mark to market		1.2	0.5
Derivatives' counterparty credit risk adjustment – mark to market[1]	26	(1.4)	(3.9)
Derivatives' own credit risk adjustment – mark to market		(0.1)	–
Non-underlying net finance costs		(26.6)	4.8
Total net finance costs		15.3	54.5

1 This mark to market movement on derivatives represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments. The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps, included in derivatives, continue to act as an effective hedge against the movements in the fair value of the Group's issued US$ denominated bonds (see note 26 – Hedges).

10 Income tax

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

Consolidated income statement	2013 £m	2012 Restated £m
Current income tax		
Current income tax charge	75.4	71.4
Adjustment in respect of prior years	(15.7)	(3.8)
Deferred income tax		
Origination and reversal of temporary differences	(15.6)	(15.3)
Adjustment in respect of prior years	(1.0)	(0.3)
	43.1	52.0

Consolidated statement of comprehensive income	2013 £m	2012 Restated £m
Deferred income tax on cash flow hedges	(0.9)	(2.7)
Deferred income tax movement in relation to actuarial losses on defined benefit plans	9.2	(0.6)
	8.3	(3.3)

Income tax related to items (credited)/charged directly to equity: Consolidated statement of changes in equity	2013 £m	2012 £m
Deferred income tax movement in relation to share based payment	8.0	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 2013 and 2012 is as follows:

	2013 £m	2012 Restated £m
Profit before tax	215.0	281.4
Notional charge at UK corporation tax rate of 23.25% (2012: 24.5%)	50.0	68.9
Adjustments in respect of current income tax of prior years	(15.7)	(3.8)
Adjustments in respect of deferred tax of prior years	(1.0)	(0.3)
Non-deductible expenses	21.4	3.6
Attributable to reduction in corporation tax rate	(7.8)	(7.3)
Attributable to lower tax rates in overseas jurisdictions	(3.8)	(5.6)
Adjustments to tax relief on share based payment	–	(3.5)
At the effective tax rate of 20.05% (2012: 18.5%)	43.1	52.0
Total tax expense reported in the income statement	43.1	52.0

The tax charge for the year ended 31 December 2013 was £43.1m (2012: charge of £52.0m) and is after a prior year net credit of £16.7m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an effective tax rate of 20.06% (2012: 18.5%). The effective tax rate on underlying profit is 19.0% (2012: 20.5%).

10 Income tax (continued)

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2013 £m	2012 £m	2013 £m	2012 £m
Deferred tax liabilities				
Accelerated capital allowances	(2.5)	(14.4)	(5.0)	4.6
Fair value adjustments on acquisition	(64.5)	(55.8)	(29.5)	(25.6)
	(67.0)	(70.2)		
Deferred tax assets				
Share based payments	16.3	10.8	2.5	(1.9)
Pension schemes' liability	11.9	24.9	3.8	(2.6)
Provisions	20.2	18.0	4.4	9.6
Losses available for offset against future taxable income	–	–	–	0.2
Mark to market movement on currency swaps	0.1	0.4	0.3	1.1
Cash flow swaps	5.3	12.2	7.7	1.8
Cash flow hedges	6.1	5.2	(0.8)	(2.8)
	59.9	71.5		
Net deferred tax (liability)/asset	(7.1)	1.3		
Deferred income tax credit			(16.6)	(15.6)

The Group has tax losses and other temporary differences of £93.8m (2012: £77.0m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose; of which £77.5m are related to losses incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance. Deferred tax assets have not been recognised in respect of £93.8m (2012: £77.0m) of these losses or other temporary differences, as their recoverability is uncertain.

The UK corporation tax rate will decrease from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. The deferred tax balance has been adjusted in the current year to reflect this change.

11 Earnings per share

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

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

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

	2013 £m	2012 Restated £m
Net profit attributable to ordinary equity holders of the parent from operations	177.2	229.4

	2013 Number million	2012 Number million
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	655.1	636.4
Dilutive potential ordinary shares:		
Employee share options	7.7	7.0
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	662.8	643.4

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 £389.1m (2012: £331.7m) and, after non-underlying costs, earnings of £177.2m (2012: £229.4m). They are included as they provide a better understanding of the underlying trading performance of the Group.

		2013 p	2012 Restated p
Basic earnings per share	– underlying	59.40	52.12
	– after non-underlying	27.05	36.04
Diluted earnings per share	– underlying	58.71	51.55
	– after non-underlying	26.74	35.65

12 Dividends paid and proposed

	2013 £m	2012 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2012 paid: 15.6p per share (2011: 14.2p per share)	102.1	86.7
Interim for 2013 paid: 8.7p per share (2012: 7.9p per share)	57.0	51.4
	159.1	138.1
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2013: 17.8p per share (2012: 15.6p per share)	116.9	101.3

13 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2012	71.5	445.4	516.9
Subsidiaries acquired	2.7	2.1	4.8
Additions	9.1	87.7	96.8
Disposals	(2.0)	(7.9)	(9.9)
Asset retirements	(12.2)	(67.4)	(79.6)
Exchange movement	(0.5)	(1.5)	(2.0)
At 31 December 2012	68.6	458.4	527.0
Subsidiaries acquired	4.5	25.4	29.9
Subsidiaries disposed	(1.0)	(5.7)	(6.7)
Additions	19.0	109.2	128.2
Disposals	(6.2)	(15.5)	(21.7)
Asset retirements	(3.6)	(78.8)	(82.4)
Re-class to intangible assets	–	(11.4)	(11.4)
Exchange movement	(0.9)	(2.0)	(2.9)
At 31 December 2013	80.4	479.6	560.0
Depreciation and impairment			
At 1 January 2012	32.7	154.0	186.7
Provided during the year	9.3	62.4	71.7
Disposals	(1.4)	(7.2)	(8.6)
Asset retirements	(12.2)	(67.4)	(79.6)
Exchange movement	(0.4)	(1.1)	(1.5)
At 31 December 2012	28.0	140.7	168.7
Provided during the year – underlying	9.8	64.3	74.1
Accelerated depreciation – business closure	3.6	2.4	6.0
Subsidiaries disposed	(1.0)	(2.6)	(3.6)
Disposals	(5.7)	(12.7)	(18.4)
Asset retirements	(3.6)	(78.8)	(82.4)
Re-class to intangible assets	–	(2.1)	(2.1)
Exchange movement	(0.6)	(1.5)	(2.1)
At 31 December 2013	30.5	109.7	140.2
Net book value			
At 1 January 2012	38.8	291.4	330.2
At 31 December 2012	40.6	317.7	358.3
At 31 December 2013	49.9	369.9	419.8

The net book value of plant and machinery includes an amount of £17.3m (2012: £2.5m) in respect of assets held under finance leases.

Notes to the consolidated financial statements

14 Intangible assets

	Acquired intangible assets						Underlying intangible assets		
	Brands £m	IP, software and licences £m	Contracts and committed sales £m	Client lists and relationships £m	Goodwill £m	Sub-total £m	Capitalised software development £m	Other intangibles £m	Total £m
Cost									
At 1 January 2012	28.8	22.1	95.3	336.1	1,526.9	2,009.2	–	21.4	2,030.6
Subsidiaries acquired	1.8	–	–	79.5	146.9	228.2	–	–	228.2
Additions	–	–	–	–	–	–	4.7	1.1	5.8
Asset retirement	–	–	–	–	–	–	–	(13.4)	(13.4)
Exchange movement	–	–	–	(0.3)	(0.1)	(0.4)	–	–	(0.4)
At 31 December 2012	30.6	22.1	95.3	415.3	1,673.7	2,237.0	4.7	9.1	2,250.8
Fair value adjustments in 2013 restating 2012[1]	–	–	–	–	16.9	16.9	–	–	16.9
At 31 December 2012 as restated	30.6	22.1	95.3	415.3	1,690.6	2,253.9	4.7	9.1	2,267.7
Subsidiaries acquired	**12.4**	**61.3**	**30.7**	**186.2**	**265.1**	**555.7**	**–**	**–**	**555.7**
Subsidiaries disposed	**(2.7)**	**–**	**(0.2)**	**(22.3)**	**(57.6)**	**(82.8)**	**(0.3)**	**–**	**(83.1)**
Additions	**–**	**–**	**–**	**–**	**–**	**–**	**11.7**	**5.2**	**16.9**
Asset retirement	**–**	**–**	**(3.8)**	**–**	**–**	**(3.8)**	**–**	**–**	**(3.8)**
Re-class from property, plant and equipment	**–**	**–**	**–**	**–**	**–**	**–**	**10.2**	**1.2**	**11.4**
Exchange movement	**–**	**–**	**0.1**			**0.1**	**–**	**–**	**0.1**
At 31 December 2013	**40.3**	**83.4**	**122.1**	**579.2**	**1,898.1**	**2,723.1**	**26.3**	**15.5**	**2,764.9**
Amortisation and impairment									
At 1 January 2012	16.3	10.3	29.5	121.0	11.0	188.1	–	13.6	201.7
Amortisation treated as depreciation	–	–	–	–	–	–	0.5	0.7	1.2
Other amortisation	4.8	3.4	14.5	72.6	–	95.3	–	–	95.3
Impairment	–	–	–	–	46.1	46.1	–	–	46.1
Asset retirement	–	–	–	–	–	–	–	(13.4)	(13.4)
At 31 December 2012	21.1	13.7	44.0	193.6	57.1	329.5	0.5	0.9	330.9
Subsidiaries disposed	**(2.6)**	**–**	**(0.2)**	**(17.8)**	**–**	**(20.6)**	**(0.1)**	**–**	**(20.7)**
Amortisation treated as depreciation	**–**	**–**	**–**	**–**	**–**	**–**	**0.9**	**2.4**	**3.3**
Accelerated amortisation – business closure	**–**	**–**	**0.2**	**–**	**–**	**0.2**	**–**	**–**	**0.2**
Other amortisation	**5.8**	**3.0**	**16.8**	**96.6**	**–**	**122.2**	**–**	**–**	**122.2**
Re-class from property, plant and equipment	**–**	**–**	**–**	**–**	**–**	**–**	**2.0**	**0.1**	**2.1**
Asset retirement	**–**	**–**	**(3.8)**	**–**	**–**	**(3.8)**	**–**	**–**	**(3.8)**
At 31 December 2013	**24.3**	**16.7**	**57.0**	**272.4**	**57.1**	**427.5**	**3.3**	**3.4**	**434.2**
Net book value									
At 1 January 2012	12.5	11.8	65.8	215.1	1,515.9	1,821.1	–	7.8	1,828.9
At 31 December 2012 (restated)[1]	9.5	8.4	51.3	221.7	1,633.5	1,924.4	4.2	8.2	1,936.8
At 31 December 2013	**16.0**	**66.7**	**65.1**	**306.8**	**1,841.0**	**2,295.6**	**23.0**	**12.1**	**2,330.7**

[1] See note 17 business combinations

15 Goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the groups of cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. These represent the lowest level within the Group at which goodwill can be allocated.

Carrying amount of goodwill allocated to groups of cash generating units

	Insurance Services £m	Life & Pension Services £m	Local Government & Further Education Software £m	IT & Software Services £m	Secure Information Solutions £m	Health & Wellbeing £m	Property Services £m	Workforce Services £m	Balance of non-significant CGUs £m	Total £m
2013										
Goodwill	**230.8**	**135.5**	**97.9**	**214.2**	**144.6**	**110.7**	**97.3**	**158.1**	**651.9**	**1,841.0**
2012										
Goodwill (restated)	288.4	135.5	84.3	188.8	107.4	105.2	97.3	117.3	509.3	1,633.5

Disclosed above are the significant groups of CGUs identified, with the remaining CGUs included in the 'non-significant balance' column. The non-significant CGUs included within the balance do not individually exceed 5% of the Group's total goodwill balance. The number of CGUs identified for 2013 has increased due to acquisitions.

The recoverable amount of the CGUs is based on a value in use calculation using cash flow projections based on the latest 1-year budget forecast approved by senior management, extrapolated for 4 future years at a growth rate applicable to each unit; an appropriate terminal value is then added. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital are then applied to these projections.

15 Goodwill (continued)

The key assumptions used in the impairment testing are as follows:
- profit before interest and taxation (year 1)
- pre-tax discount rates
- rate of growth in CGUs beyond the budget period (years 2 to 5)
- long term growth (>5 years).

Profit before interest and taxation
The profit before interest and taxation is based on the assumption that future margins will remain in line with levels currently being achieved. Non-cash items have been added back where appropriate to the profit before interest and taxation in order to determine the cash flow for the CGU.

Discount rate
The Group's post-tax-weighted average cost of capital of 7.7% (2012: 7.0%) has been used to derive a Group pre-tax discount rate. The Group pre-tax rate is adjusted where appropriate to reflect the risks specific to the market in which the CGUs are operating.

The cost of capital and cost of debt has been calculated for each CGU with the expected rate of return for debt and equity constant for all CGU's.

Rates of growth in cash generating units beyond the budget period (years 2 to 5)
The growth rate assumptions used in each CGU for years 2 to 5 are based on projections provided by third party market research for the relevant market. Projections have been reviewed by senior management.

Long term growth rates (>5 years)
A terminal value based on a perpetuity calculation using third party market average growth has been added to the projected 5-year cash flows.

The base rates have been disclosed below:

	Third party market growth rates years 2-5	Pre-tax WACC
Insurance Services	4.3%	**10.4%**
Life & Pensions Services	5.5%	**10.0%**
Local Government & Further Education Software	6.5%	**10.2%**
IT & Software Services	2.2%	**10.1%**
Secure Information Solutions	4.6%	**10.0%**
Health & Wellbeing	7.1%	**9.5%**
Property Services	1.3%	**11.1%**
Workforce Services	4.8%	**9.4%**
Non-significant CGUs	Range 1.3% – 6.5%	**Range 7.9% – 11.5%**

Sensitivity analysis
Impairment testing is dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows and the discount rate applied to those cash flows. Sensitivity analysis has been performed for these key assumptions.

Sensitivity analysis has been performed by risk adjusting the discount rate calculated for each CGU, adjusting growth rates and lowering expected margins.

Based on the sensitivity analysis performed a combined 1% reduction in growth rates and future margins and a 1% increase in the discount rate does not cause an impairment of the associated goodwill in any CGU. The recoverable amount of Insurance Services continues to be the most sensitive to a change in the key assumptions. The overall level of projected cash flows would need to reduce by 33% to cause an impairment of the associated goodwill. Management will continue to closely monitor this CGU.

Overall, management has concluded that no reasonable possible change in the key assumptions discussed above would cause any of the goodwill within the identified significant CGUs to become impaired.

Notes to the consolidated financial statements

16 Financial assets

Current financial assets	2013 £m	2012 £m
Investment loan[1]	0.3	0.3
Available-for-sale assets[2]	–	0.8
Currency swaps in relation to US$ denominated bonds[3]	2.7	6.9
Non-designated foreign exchange forward contracts	0.1	–
	3.1	8.0

Non-current financial assets	2013 £m	2012 £m
Investment loan[1]	20.5	20.7
Available-for-sale assets[2]	1.5	–
Currency swaps in relation to US$ denominated bonds[3]	136.7	199.6
Interest rate swaps in relation to GBP denominated bonds[3]	7.7	15.9
	166.4	236.2

1 The investment loan represents a funding arrangement with Optima Legal Services Limited (OLSL).
2 Available-for-sale assets comprise investments in unlisted ordinary shares. The unlisted ordinary shares, for which there is no immediately identifiable market and which have no fixed maturity date or coupon rate, are carried at cost less provision for any impairment.
3 The currency swaps are used to hedge the exposure to interest rate and currency fluctuations on the Group's US$ denominated bonds. The change in the fair value of the underlying bonds due to changes in interest and currency rates is offset by the fair value of the currency swaps recognised above. The interest rate swaps are used to hedge the fair value of the Group's GBP denominated bonds and the change in the fair value of the underlying bonds due to changes in interest rates is equivalent to the fair value of the interest rate swaps recognised above. Details of the interest rate swaps, currency swaps and cash flow hedges are contained in note 26.

17 Business combinations

2013 acquisitions

The Group made a number of acquisitions in 2013 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition		
	Public sector subsidiary partnership £m	Other acquisitions £m	Total £m
Property, plant and equipment	3.9	26.0	29.9
Intangible assets	102.7	187.9	290.6
Trade and other receivables due in less than 1 year	3.7	50.9	54.6
Trade and other receivables due in more than 1 year	–	14.4	14.4
Corporation tax	–	1.6	1.6
Cash and cash equivalents	–	15.8	15.8
Trade and other payables (excluding accruals) due in less than 1 year	(2.5)	(41.5)	(44.0)
Accruals due in less than 1 year	(10.9)	(54.9)	(65.8)
Trade and other payables due in more than 1 year	–	(2.0)	(2.0)
Provisions	–	(5.5)	(5.5)
Deferred tax	(2.1)	(23.0)	(25.1)
Employee benefits liability	–	(14.3)	(14.3)
Finance leases	–	(25.4)	(25.4)
Public sector subsidiary partnership payment (note 22)	(52.2)	–	(52.2)
Long term debt	(9.1)	(5.1)	(14.2)
Net assets	33.5	124.9	158.4
Goodwill arising on acquisition	103.0	162.1	265.1
Non-controlling interest	(66.9)	–	(66.9)
	69.6	287.0	356.6
Discharged by:			
Cash	34.9	232.9	267.8
Equity instruments	–	4.1	4.1
Contingent consideration accrued	–	26.1	26.1
Deferred consideration accrued	34.7	23.9	58.6
	69.6	287.0	356.6

Public sector subsidiary partnerships represent a controlling interest in 3 public sector acquisitions in 2013, being 51% of the ordinary share capital of Axelos Limited and Entrust Support Services Limited and 100% of the ordinary share capital of Fire Service College Limited.

In all other cases 100% of the ordinary share capital was acquired. The companies acquired have been mainly in the areas of IT and software, debt management, analytics, gamification, change management, and learning and development which complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition, during the year the Group settled contingent consideration payments with regard to previous acquisitions amounting to £14.4m, all of which had been accrued.

17 Business combinations (continued)

Where this can be determined, the acquired subsidiaries contributed £11.6m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2013, Group revenue would have been an estimated £3,981.5m and Group profit before tax would have been an estimated £221.4m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2013. During the year, some of the acquired businesses have been completely integrated into the existing business of the Group and therefore their post-acquisition performance cannot be determined.

Goodwill has arisen on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses, particularly from synergies, the capabilities of the acquired workforce, and commercialisation of formerly public sector assets. The total amount of goodwill recognised in the period that is expected to be deductible for tax purposes is £103.4m (2012: £3.3m).

The fair value exercise has been completed on a provisional basis for acquisitions made in 2013. The Group will complete this review in 2014 though any adjustment to the carrying value is likely to be insignificant to the individual acquisition. In total, the effect of revisions made to fair value adjustments in the current year that had been determined provisionally at the immediately preceding balance sheet date increases goodwill by £16.9m, largely relating to an onerous contract provision acquired with the Reliance Secure Task Management acquisition. These revisions increased provisions by £14.1m, accruals by £2.3m, and other payables by £0.5m as at 31 December 2012.

Contingent consideration.

In respect of the acquisitions made in 2013, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 4 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. The range of the additional consideration payment is estimated to be between £20m and £35m. The Group has included £26.1m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation.

Deferred consideration

In respect of the acquisitions made in 2013, the Group has agreed to pay the vendors additional consideration post the year end period. The Group has included £58.6m as deferred consideration, which represents its fair value at the acquisition date.

Acquisition related costs

The Group incurred acquisition related costs of £14.3m related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in non-underlying administrative expenses in the Group's consolidated income statement.

2012 acquisitions

The Group made a number of acquisitions in 2012 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	81.3
Property, plant and equipment	4.8
Deferred tax	(3.0)
Bank loans and overdrafts	17.6
Trade and other receivables due in less than one year	59.0
Trade and other payables (excluding Accruals) due in less than 1 year	(56.2)
Accruals due in less than 1 year	(44.4)
Long term debt	(57.1)
Provisions	(19.0)
Corporation tax	5.1
Net assets	(11.9)
Goodwill arising on acquisition	146.9
	135.0
Discharged by:	
Cash	126.6
Contingent consideration accrued	8.4
	135.0

In all cases 100% of the ordinary share capital was acquired and the consideration satisfied in cash. The companies acquired were mainly in the areas of pensions and employee benefits, security, health and travel and complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition, during 2012 the Group settled contingent consideration payments with regard to previous acquisitions amounting to £12.0m, all of which had been accrued.

During 2012 some of the acquired businesses had been completely integrated into the existing businesses of the Group and therefore their post-acquisition performance could not be determined. In aggregate for the year, the other acquired subsidiaries contributed £12.5m to the profit before tax of the Group. If the acquisitions had occurred on 1 January 2012, Group revenue would have been an estimated £3,478.2m and Group profit before tax would have been an estimated £295.5m. 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 2012. The post acquisition revenue of Clinical Solutions benefited from a £5.6m release of deferred income (included in the balance sheet at the date of acquisition) arising from a change in the performance obligations and expected future costs of a significant contract.

Notes to the consolidated financial statements

17 Business combinations (continued)
Goodwill arose on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses.

Contingent consideration
In respect of the acquisitions made in 2012, the Group agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. At 31 December 2012 the range of the additional consideration payment was estimated to be between £5m and £10m. The Group had included £8.4m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration had been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation.

The fair value exercise had been completed on a provisional basis for acquisitions made in 2012. The Group completed this review in 2013.

Acquisition related costs
The Group incurred acquisition related costs of £10.3m related to professional fees paid for due diligence, general professional fees and legal related costs. These costs were included in non-underlying administrative expenses in the Group's consolidated income statement.

18 Trade and other receivables

Current	2013 £m	2012 £m
Trade receivables	**449.6**	417.4
Other receivables	**37.2**	33.4
Gross amounts due from customers on construction contracts	**61.5**	54.1
Accrued income	**257.0**	257.8
Prepayments	**87.6**	71.4
	892.9	834.1

Non-current	2013 £m	2012 £m
Other receivables	**2.5**	6.1
Accrued income	**57.7**	53.6
Prepayments	**17.4**	13.0
	77.6	72.7

Trade receivables are non-interest bearing and are generally on 30 days' terms.

At 31 December 2013, trade receivables at a nominal value of £17.8m (2012: £21.8m) were impaired and fully provided for.

Movements in the provision for impairment of trade receivables were as follows:

	2013 £m	2012 £m
At 1 January	**21.8**	30.1
Utilised	**(0.7)**	(0.7)
Released in year (net)	**(5.2)**	(12.8)
Business disposal/closure	**(0.4)**	–
Provisions acquired	**2.3**	5.2
At 31 December	**17.8**	21.8

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	0–3 months £m	4–6 months £m	7–12 months £m	More than 12 months £m
2013	**449.6**	**337.6**	**98.7**	**13.3**	**–**	**–**
2012	417.4	311.9	93.1	12.4	–	–

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty.

19 Cash, cash equivalents and overdrafts

	2013 £m	Restated 2012 £m
Cash at bank and in hand	**610.8**	747.3
Overdrafts	**(453.0)**	(440.6)

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash is the same as the carrying amount above.

Included in cash at bank are balances held in the Group's notional cash pools under which the bank has the right of offset against overdrafts of the same amount – see note 26.

20 Trade and other payables

Current	2013 £m	Restated 2012 £m
Trade payables	194.6	184.9
Other payables	31.2	104.4
Other taxes and social security	149.8	123.9
Accruals	414.9	359.8
Deferred income	233.0	195.9
	1,023.5	968.9
Non-current		
Other payables	1.3	1.5
Accruals	0.7	1.4
Deferred income	24.5	9.6
	26.5	12.5

Trade payables are non-interest bearing and are normally settled on terms agreed with suppliers.

See note 17 for details of restatement.

21 Construction contracts

The Group constructs assets for its customers, which are mainly IT in nature. In line with the requirements of IAS 11 gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

Gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

	2013 £m	2012 £m
Contract revenue recognised in relation to construction contracts in the year	110.5	94.5
Aggregate costs incurred and recognised profits (less losses) to date	102.4	86.3
Gross amount due from customers for construction contracts	61.5	54.1

22 Financial liabilities

Current	Notes	2013 £m	Restated 2012 £m
Contingent consideration		8.8	21.1
Deferred consideration		35.5	–
Obligations under finance leases	24	4.9	1.1
Unsecured loan notes		10.2	0.1
Cash flow hedges		6.0	2.6
Non-designated foreign exchange forward contracts		0.5	0.2
Bonds		13.1	95.0
Fixed rate interest rate swaps		0.2	1.4
		79.2	121.5
Non-current			
Contingent consideration		26.4	5.7
Deferred consideration		23.1	–
Public sector subsidiary partnership payment[1]		52.2	–
Put options of non-controlling interests[1]		96.0	–
Obligations under finance leases	24	12.4	1.6
Unsecured loan notes		0.2	0.4
Bonds		1,254.2	1,275.1
Term loan		200.0	185.0
Cash flow hedges		24.2	19.9
Non-designated foreign exchange forward contracts		1.3	0.2
Currency swaps in relation to US$ denominated bonds		13.5	0.3
Fixed rate interest rate swaps		26.4	51.5
		1,729.9	1,539.7

[1] See commentary below.

The aggregate bond value stated above of £1,267.3m (net of issue costs) includes a fair value adjustment for interest rate and currency risk of the bonds at 31 December 2013. To remove the Group's exposure to interest rate and currency fluctuations it has entered into interest rate swaps and currency swaps which effectively hedge any movement in the underlying bond fair value. The fair value of the currency swaps is disclosed in note 16 – Financial assets and note 22 – Financial liabilities in the current and comparative years.

In 2013 the Group repaid bonds which reached maturity. These were £50.0m 2005 Series A bonds, US$60.0m 2006 Series A bonds (GBP equivalent: £32.3m) and US$11.0m 2006 Series A bonds (GBP equivalent: £5.8m). During the year, the Group issued fixed rate bonds; these were £75m GBP denominated bonds with a maturity of 7 years and a fixed coupon of 3.73%.

22 Financial liabilities (continued)

The issue costs incurred on the issue of the bonds during the year amounted to £0.1m (2012: £nil). Issue costs on the bonds are spread over the life of the bonds to their maturity. The unamortised balance of issue costs at the year-end totalled £1.4m (2012: £1.7m).

In 2013 the Group repaid the £185m term loan and replaced it with a new £200m 2 year term loan at a floating rate of interest.

The obligations under finance leases are secured on the assets being financed. The bonds and loan notes are unsecured. The loan notes issued are non-interest bearing.

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by Axelos Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in years 4 to 10. This payment is funded by Axelos Limited and is contingent on profits. The net of tax cash cost has been estimated at £35.9m. Following these payments, the new company will pay profits to the partners according to their stake in the business.

The non-controlling shareholders of Axelos Limited and Entrust Support Services Limited, which we acquired a controlling interest in during the year, have an option to put their shareholding to Capita Plc. Accordingly, a liability of £96.0m has been recognised and a corresponding entry has been recorded against retained earnings. The options are exercisable only after a period of 5 years has elapsed.

The Group has available to it a committed Revolving Credit Facility of £425.0m maturing in December 2015, of which £nil had been drawn down as at 31 December 2013 (2012: £nil drawn down). These funds are available for the Group's immediate use.

The Group has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005[3]				
Series B	0.525 above 6m GBP LIBOR	GBP	25.0	28 September 2015
Issued 2008[1]				
Series C	7.19	GBP	32.0	13 September 2015
Issued 2010				
Series C[6]	4.78	GBP	50.0	30 June 2020
Issued 2011[1]				
Series A[5]	4.85	GBP	50.0	22 July 2019
Series C	4.76	GBP	35.0	19 July 2021
Issued 2013				
Series A	3.73	GBP	75.0	30 September 2020
Total of sterling denominated bonds			267.0	
			US$m	
Issued 2006[2,3]				
Series B	5.88	US$	130.0	28 June 2016
Series B	5.81	US$	74.0	13 September 2016
Series C	5.77	US$	60.0	13 September 2016
Issued 2007[2,3]				
Series A	5.57	US$	21.0	11 October 2014
Series B	5.88	US$	179.0	11 October 2017
Issued 2008[2]				
Series A	6.04	US$	80.0	13 September 2015
Series B[5]	6.51	US$	256.0	13 September 2018
Issued 2010[2]				
Series A	4.15	US$	50.0	30 June 2017
Series B[4,5]	4.80	US$	250.0	30 June 2020
Issued 2011[2]				
Series B[5]	4.65	US$	80.0	22 July 2019
Series A	3.72	US$	40.0	19 July 2018
Series B	4.50	US$	236.0	19 July 2021
Series A	4.75	US$	50.0	26 July 2021
Total of US$ denominated bonds			1,506.0	

1 The Group has entered into an interest rate swap to convert the interest cost to a floating rate based on 6 month GBP LIBOR.
2 The Group has entered into currency swaps for the US$ issues to achieve a floating rate of interest based on 6 month GBP LIBOR. Further disclosure on the Group's use of hedges is included in note 26.
3 Subsequently, the Group has entered a series of fixed rate interest rate swaps to convert these issues from paying a floating rate based on 6 month LIBOR to fixed rates. See note 26 for further details of these fixed rate interest rate swaps.
4 The Group has entered a fixed rate interest rate swap to convert GBP57m of this issue from paying a floating rate based on 6 month LIBOR to a fixed rate.
5 The Group has entered a series of fixed rate interest rate swaps to convert the whole or a proportion of these issues from paying a floating rate based on 6 month LIBOR to fixed rates with an effective start date subsequent to the reporting date. See note 26 for further details of these fixed rate interest rate swaps.
6 The Group has entered a fixed rate interest rate swap to convert this issue from paying a fixed rate of 4.78% to a fixed rate of 3.75%.

All series are unsecured and rank pari passu in all respects.

23 Funds assets and liabilities

	2013 £m	Restated 2012 £m
Funds receivables	100.7	108.0
Funds restricted cash	0.1	13.2
Funds assets	100.8	121.2
Funds liabilities	(100.8)	(121.2)

These balances relate to investors' purchase or redemption of units in Investment Funds of which Capita Financial Managers Limited, our unit trust administration business, is an Authorised Corporate Director. The balances are due to and from the investors and Investment Funds. The parties to the trade are permitted to take advantage of a 4-day settlement period between initiation and settlement of the trade.

24 Obligations under leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts to acquire plant and machinery. These leases have terms of renewal and purchase options but no escalation clauses. Renewals are at the option of the lessee.

The value of future minimum lease payments and their present value, which are the same, is analysed as follows:

	2013 £m	2012 £m
Not later than 1 year	4.9	1.1
Later than 1 year but not more than 5 years	12.4	1.6
	17.3	2.7

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:

	2013 £m	2012 Restated £m
Not later than 1 year	89.5	77.2
Later than 1 year but not later than 5 years	205.9	154.9
Later than 5 years	129.8	91.7
	425.2	323.8

The future minimum rentals payable disclosed above are the present value of the obligations.

25 Provisions

	Restructuring provision £m	Insurance captive provision £m	Property provision £m	Other £m	Total £m
At 1 January 2013 (restated[1])	–	16.0	39.4	23.2	78.6
Utilisation	(0.2)	(13.7)	(7.9)	(13.4)	(35.2)
Provided in the year (net)	41.5	22.8	(0.1)	1.8	66.0
Provisions acquired	–	–	5.2	0.3	5.5
At 31 December 2013	41.3	25.1	36.6	11.9	114.9

[1] See note 17 Business combinations

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 Group has made the restructuring provision for unavoidable costs which will be incurred due to its decisions to dispose of its insurance distribution business and to close its SIP business. The provision is expected to unwind over 2 years.

The insurance provision is made in relation to the Group's Professional Indemnity, Motor and Employee Liability exposures. The Group uses a captive insurer to reduce the cost of providing this cover for its operations; claims that are in excess of the Captive's liability are reinsured with a number of large insurance underwriters. The Group makes provision when a claim has been made where it is more probable than not that an insured loss will occur. These provisions are reassessed regularly to ensure that the level of provisioning is consistent with the claims that have been reported. In the year the Group has settled a number of insurance liabilities which it had provided for in previous years. Additionally, it has made provision for new claims and increased or decreased existing provisions where more information on the progress of the claim has become available.

Within the property provisions there is included a discounted provision for the difference between the market value of the property leases acquired in 2011 with Ventura and Vertex Private Sector and the lease obligations committed to at the date the leases were signed by the previous owners. This is in accordance with IFRS 3 (revised) which requires the use of fair value measurement. The remaining property provision is made on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 25 years.

Included in other provisions at 1 January 2013 was an onerous contract in relation to the ALS courts' interpretation contract, recognised through the fair value exercise on acquisition. During the year through restructuring the delivery methodologies, the contract became profitable for the first time and is expected to remain profitable through to the end of the contract. As a result, the remaining unutilised provision of £3.8m was released to the income statement in the year.

Other relates to provisions in respect of potential claims arising due to the nature of some of the operations that the Group provides and a provision for an onerous contract in relation to contracts acquired with the Reliance Secure Task Management acquisition. These are likely to unwind over a period of 1 to 3 years.

26 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments are comprised of cash, bank loans, bond issues, loan notes, finance leases and derivatives. The main purpose of these financial instruments is to raise finance for the Group's operations and to manage the Group's financial risks. The Group also has various other financial instruments such as trade receivables and trade payables which arise directly from its operations.

The Group also enters into derivative transactions. These are interest rate swaps, currency swaps, fixed rate interest rate swaps and forward currency contracts. Their purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short term debtors, creditors, fund payables/receivables and cash in hand) that are carried in the financial statements. The values below represent the carrying amounts. The carrying values are a reasonable approximation of fair value other than 2 fixed rate bonds totalling £125.0m, included below in the bond value of £1,267.3m, with a carrying value of £125.0m and a fair value of £125.9m. The fair value of these bonds has been calculated by discounting the expected future cash flows at prevailing interest rates and this fair value measurement would be categorised within level 2 of the fair value hierarchy.

At 31 December 2013	Available-for-sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial assets						
Unlisted equity securities	1.5	–	–	–	–	1.5
Investment loan	–	–	20.8	–	–	20.8
Non-designated foreign exchange forward contracts	–	0.1	–	–	–	0.1
Interest rate swaps in relation to GBP denominated bonds	–	–	–	7.7	–	7.7
Currency swaps in relation to US$ denominated bonds	–	–	–	139.4	–	139.4
	1.5	0.1	20.8	147.1	–	169.5
Financial liabilities						
Overdraft	–	–	–	–	453.0	453.0
Unsecured loan notes	–	–	–	–	10.4	10.4
Bonds	–	–	–	–	1,267.3	1,267.3
Term loan	–	–	–	–	200.0	200.0
Cash flow hedges	–	–	–	30.2	–	30.2
Non-designated foreign exchange forward contracts	–	1.8	–	–	–	1.8
Currency swaps in relation to US$ denominated bonds	–	–	–	13.5	–	13.5
Contingent consideration	–	–	–	–	35.2	35.2
Deferred consideration	–	–	–	–	58.6	58.6
Obligations under finance leases	–	–	–	–	17.3	17.3
Public sector subsidiary partnership payment	–	–	–	–	52.2	52.2
Put options of non-controlling interests	–	–	–	–	96.0	96.0
Fixed rate interest rate swaps	–	26.6	–	–	–	26.6
	–	28.4	–	43.7	2,190.0	2,262.1

The aggregate bond value above of £1,267.3m includes the GBP value of the US$ denominated bonds at 31 December 2013. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the bonds' fair value due to changes in prevailing foreign exchange and interest rates. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds. The fair values of the currency and interest swaps are disclosed in note 16 – Financial assets and in note 22 – Financial liabilities in the current year.

26 Financial instruments (continued)

At 31 December 2012	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	0.8	–	–	–	–	0.8
Investment loan	–	–	21.0	–	–	21.0
Interest rate swaps in relation to GBP denominated bonds	–	–	–	15.9	–	15.9
Currency swaps in relation to US$ denominated bonds	–	–	–	206.5	–	206.5
	0.8	–	21.0	222.4	–	244.2
Financial liabilities						
Overdraft	–	–	–	–	440.6	440.6
Unsecured loan notes	–	–	–	–	0.5	0.5
Bonds	–	–	–	–	1,370.1	1,370.1
Term loan	–	–	–	–	185.0	185.0
Cash flow hedges	–	–	–	22.5	–	22.5
Non-designated foreign exchange forward contracts	–	0.4	–	–	–	0.4
Currency swaps in relation to US$ denominated bonds	–	–	–	0.3	–	0.3
Contingent consideration	–	–	–	–	26.8	26.8
Obligations under finance leases	–	–	–	–	2.7	2.7
Fixed rate interest rate swaps	–	52.9	–	–	–	52.9
	–	53.3	–	22.8	2,025.7	2,101.8

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for unlisted equity securities and investment loans. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. Unlisted equity securities and investment loans are held at amortised cost. The Group enters into derivative financial instruments with multiple counterparties, all of which are financial institutions with investment grade credit ratings.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2013, the Group held the following financial instruments measured at fair value:

	2013 £m	2012 £m
Assets measured at fair value		
Non-designated foreign exchange forward contracts	0.1	–
Interest rate swaps in relation to GBP denominated bonds	7.7	15.9
Currency swaps in relation to US$ denominated bonds	139.4	206.5

	2013 £m	2012 £m
Liabilities measured at fair value		
Bonds	1,142.3	1,320.1
Cash flow hedges	30.2	22.5
Non-designated foreign exchange forward contracts	1.8	0.4
Currency swaps in relation to US$ denominated bonds	13.5	0.3
Fixed rate interest rate swaps	26.6	52.9
Public sector subsidiary partnership payment	52.2	–
Put options of non-controlling interests	96.0	–
Contingent consideration	35.2	26.8

During both years the Group only had Level 2 assets or liabilities measured at fair value apart from contingent consideration, the public sector subsidiary partnership payment and the put options of non-controlling interests which are Level 3 liabilities. It is the Group's policy to recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred. During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

Contingent consideration arises in business acquisitions where the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. The Group makes provision for such contingent consideration for each acquisition based on an assessment of its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation. A sensitivity analysis was performed on the expected contingent consideration of £35.2m. The sensitivity analysis performed adjusted the probability of payment of the contingent amounts. A 10% increase in the probability of contingent consideration being paid results in an increase in potential contingent consideration of £1.6m. A 10% decrease in the probability of the contingent consideration being paid results in a decrease in potential contingent consideration of £2.5m.

26 Financial instruments (continued)

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by Axelos Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in years 4 to 10. This payment is funded by Axelos Limited and is contingent on profits. The fair value of £52.2m has been derived by discounting the expected payment at the Group cost of debt to arrive at its present value. If the discount rate was to increase/decrease by 1% the present value would decrease/increase by £3m.

The put options of the non-controlling interests (see note 22) are valued based on the expected redemption value of the shares that will be paid in cash by the Group. This value is determined by reference to the expected date of exercise of the options, which is then discounted to arrive at a present value. The sensitivity of the valuation to movements in both the discount rate and the cash flows that have been used to calculate it, are as follows: a 10% increase/decrease in the earnings potential of the business results in a £9.0m increase/decrease in the valuation; a 1% increase/decrease in the discount rate applied to the valuation results in a £4.6m decrease/£4.9m increase in the valuation.

The following table shows the reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m
At 1 January 2013	26.8	–	–
Arising from business combinations in the period	26.1	52.2	96.0
Profit and loss movement – administrative expenses	1.7	–	–
Reclassified from current liabilities	5.0	–	–
Conversion to current loan notes	(10.0)	–	–
Utilised	(14.4)	–	–
At 31 December 2013	35.2	52.2	96.0

Interest rate risk

The Group's exposure to the risk of changes in market interest rates arises primarily from the Group's long term debt.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate financial instruments to generate the desired interest rate profile and to manage its exposure to interest rate fluctuations.

The Group has primarily issued fixed rate coupon US$ denominated bonds, which have been swapped to floating rate GBP liabilities at the date of issuance using currency swaps. These currency swaps are designated as fair value hedges against changes in the fair value of the bonds due to changes in prevailing foreign currency exchange and interest rates.

In February 2008, Capita executed a series of fixed rate interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. Up to June 2012, the counterparty held the option to cancel these swaps on each semi-annual coupon payment date. In June 2012, the counterparty's option to cancel was removed, the duration of the swaps was extended and the fixed rate was reduced, taking advantage of the lower prevailing interest rate environment. These fixed rate interest rate swaps are not designated in any hedge relationship so their change in fair value is recognised in net finance costs in the income statement – see note 9 – Net finance costs.

Following the fall in prevailing interest rates at the end of 2008 and the low base interest rates maintained thereafter, these fixed rate interest rate swaps show a negative mark to market value of £26.6m at 31 December 2013 (2012: negative mark to market value of £52.9m). This movement results in a non-cash accounting gain in the year of £26.3m (2012: loss of £8.2m).

In addition to the fixed rate bonds of £504.6m in issue as at 31 December 2013 (underlying value – not adjusted for the impact of the swaps), the Group had a further £630.1m of swapped bonds, a £200.0m 2-year term loan and a £425.0m undrawn committed revolving credit facility, all paying floating rate interest. This gives the Group as a whole a balanced interest rate risk profile through the use of both fixed and floating rate financial instruments.

The interest rate profile of the interest-bearing financial assets and liabilities of the Group as at 31 December is as follows:

At 31 December 2013	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Bonds	13.1	24.7	179.7	125.5	77.4	178.6	599.0
Obligations under finance leases	4.9	5.2	5.0	2.2	–	–	17.3
Foreign currency swaps in relation to US$ denominated bonds	(2.7)	–	(38.8)	(35.1)	(21.8)	3.1	(95.3)
Fixed rate interest rate swaps	0.2	0.9	7.6	6.0	3.7	8.2	26.6
Floating rate							
Cash in hand	(610.8)	–	–	–	–	–	(610.8)
Overdraft	453.0	–	–	–	–	–	453.0
Investment loan	(0.3)	(3.5)	(4.0)	(5.0)	(8.0)	–	(20.8)
Bonds	–	86.7	–	32.0	125.5	424.1	668.3
Term loan	–	200.0	–	–	–	–	200.0
Cash flow hedges	6.0	4.6	5.2	5.4	5.4	3.6	30.2
Non-designated foreign exchange forward contracts	0.4	0.5	0.2	0.2	0.2	0.2	1.7
Interest rate swap in relation to GBP denominated bonds	–	(2.7)	–	–	–	(5.0)	(7.7)
Foreign currency swaps in relation to US$ denominated bonds	–	(12.0)	–	1.8	(28.1)	7.7	(30.6)

26 Financial instruments (continued)

At 31 December 2012	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Bonds	95.0	13.7	24.7	190.7	134.3	74.3	532.7
Obligations under finance leases	1.1	0.8	0.5	0.3	–	–	2.7
Foreign currency swaps in relation to US$ denominated bonds	(6.9)	(3.6)	–	(49.9)	(43.4)	–	(103.8)
Fixed rate interest rate swaps	1.4	0.4	1.6	11.4	9.0	29.1	52.9
Floating rate							
Cash in hand	(747.3)	–	–	–	–	–	(747.3)
Overdraft	440.6	–	–	–	–	–	440.6
Investment loan	(0.3)	(0.5)	(3.5)	(4.0)	(5.0)	(7.7)	(21.0)
Bonds	–	–	91.0	–	33.5	712.9	837.4
Term loan	–	185.0	–	–	–	–	185.0
Cash flow hedges	2.6	3.8	2.8	3.6	4.0	5.7	22.5
Non-designated foreign exchange forward contracts	0.2	0.1	0.1	–	–	–	0.4
Interest rate swap in relation to GBP denominated bonds	–	–	(4.2)	–	–	(11.7)	(15.9)
Foreign currency swaps in relation to US$ denominated bonds	–	–	(14.8)	–	0.3	(87.9)	(102.4)

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
2013	**13/(13)**	**(0.8)/0.8**
2012	17/(17)	(1.0)/1.0

Foreign currency risk

The Group has exposure to foreign currency risk where it has cash flows in overseas operations and foreign currency transactions in UK operations which are affected by foreign exchange movements. The Group is not generally exposed to significant foreign currency risk except in respect of its cash flows in overseas operations in India which generate exposure to movements in the INR/GBP exchange rates. The Group seeks to mitigate the effect of this exposure by entering forward currency contracts (in the form of Non-deliverable Forward Contracts (NDFs)) to fix the GBP cost of highly probable forecast transactions denominated in INR.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the underlying cash flows in order to maximise hedge effectiveness.

At 31 December 2013, the Group had cash flow hedges in place against forecast monthly INR costs in 2014 and each year up to and including 2019. These forecast INR costs have been determined on the basis of the underlying cash flows associated with the delivery of services under signed contracts which run to 2019.

26 Financial instruments (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the INR/GBP exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity due to changes in the fair value of the Group's forward exchange contracts.

	Increase/ (decrease) in INR exchange rate	Effect on profit before tax £m	Effect on equity £m
2013	**(2.44)%**	**–**	**3.4**
2012	(6.00)%	–	9.6

Hedges

Fair value hedges

The Group has in issue fixed rate dollar and sterling bonds which it has hedged through a combination of interest rate and currency swaps.

The Group had interest rate swaps in place with a notional amount of £117.0m (2012: £117.0m) whereby it receives a weighted average fixed rate of interest of 5.46% (2012: fixed rate of interest 5.46%) and pays variable rates based on 6-month GBP LIBOR. The swap is being used to hedge the exposure to changes in the fair value of £117.0m (2012: £117.0m) of the Group's bonds.

The Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on 6-month GBP LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £867.7m (2012: £905.8m) of the Group's bonds, which have coupon rates ranging from 3.72% to 6.51%.

The currency swaps are being used to hedge the exposure to changes in the fair value of its US dollar issued bonds. The bonds, currency and interest rate swaps have the same critical terms including the amount and the date of maturity (see note 22).

The total loss in the year on the fair value hedges of £90.0m (2012: total loss £37.8m), excluding credit risk, was equal to the gain on the hedged items resulting in no net gain or loss in the income statement.

The Group may, at its option, upon notice of not less than 30 days and not more than 60 days, repay at any time all or part of the notes at no more than the present value of future payments.

Cash flow hedges

As noted above, the Group holds a series of forward exchange currency contracts in the form of NDFs designated as hedges of highly probable forecast transactions in INR of the Group's Indian operations.

Forward exchange contracts	**Assets £m**	**2013 Liabilities £m**	Assets £m	2012 Liabilities £m
Fair value	**–**	**30.2**	–	22.5

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 2013 and a net unrealised loss of £30.2m (2012: loss of £22.5m) less deferred tax of £6.0m (2012: £5.2m) was recognised in equity. The net loss recognised on cash flow hedges during the year was £10.3m (2012: net loss £11.3m) whilst net losses of £2.6m (2012: gains of £1.2m) were reclassified to the income statement and included in administrative expenses. The tax effect of the net movement in cash flow hedges during the year was a credit of £0.8m (2012: credit of £2.7m).

Credit risk

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

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

The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments.

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

Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed facilities to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, term loans, loan notes, overdrafts and finance leases over a broad spread of maturities to 2021.

26 Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 based on contractual undiscounted payments.

At 31 December 2013	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	453.0	–	–	–	–	–	453.0
Unsecured loan notes	10.2	0.1	0.1	–	–	–	10.4
Bonds	12.7	105.4	159.8	138.6	179.1	582.8	1,178.4
Interest on above bonds	60.8	60.1	52.3	44.6	37.6	53.3	308.7
Term loan	–	200.0	–	–	–	–	200.0
Interest on above term debt	2.4	1.3	–	–	–	–	3.7
Contingent consideration	9.4	18.3	7.5	–	–	–	35.2
Public sector subsidiary partnership payment	–	–	–	9.4	9.4	47.0	65.8
Put options of non-controlling interests	–	–	–	–	–	160.6	160.6
Obligations under finance leases	4.9	5.2	5.0	2.2	–	–	17.3
Currency swaps	(9.2)	(9.2)	(5.6)	(8.8)	(7.7)	5.5	(35.0)
Fixed rate interest rate swaps	5.7	10.8	14.2	16.8	12.5	11.4	71.4
Non-designated foreign exchange forward contracts	0.4	0.3	(0.1)	(0.2)	(0.3)	(0.6)	(0.5)
Cash flow hedges	5.2	3.2	3.4	3.2	3.1	2.3	20.4
	555.5	395.5	236.6	205.8	233.7	862.3	2,489.4

At 31 December 2012	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	440.6	–	–	–	–	–	440.6
Unsecured loan notes	0.1	0.2	0.1	0.1	–	–	0.5
Bonds	93.8	13.0	106.4	163.0	141.4	698.0	1,215.6
Interest on above bonds	61.1	59.0	58.3	50.3	42.6	83.9	355.2
Term loan	–	185.0	–	–	–	–	185.0
Interest on above term debt	3.1	0.3	–	–	–	–	3.4
Contingent consideration	21.2	3.2	2.4	–	–	–	26.8
Obligations under finance leases	1.1	0.8	0.5	0.3	–	–	2.7
Currency swaps	(0.7)	(0.7)	(0.7)	(0.7)	2.6	–	(0.2)
Fixed rate interest rate swaps	9.0	11.7	11.7	10.8	12.0	20.8	76.0
Non-designated foreign exchange forward contracts	0.1	–	–	–	–	–	0.1
Cash flow hedges	1.8	1.8	0.9	1.3	1.1	2.1	9.0
	631.2	274.3	179.6	225.1	199.7	804.8	2,314.7

Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed to each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single amount that is payable by 1 party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

In addition, the Group's banks have the right to set off amounts owed to them under ISDA master netting agreements and loans against cash amounts held by the relevant Group member with that bank, but only in certain circumstances – e.g. when a credit event such as a default occurs. The Group also has notional cash pools with its banks under which the bank may net cash balances with overdrafts held by other members of the Group.

26 Financial instruments (continued)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

At 31 December 2013	Gross and net amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets			
Non-designated foreign exchange forward contracts	**0.1**	**–**	**0.1**
Currency swaps	**139.4**	**(60.8)**	**78.6**
Interest rate swaps	**7.7**	**(1.6)**	**6.1**
Cash at bank	**610.8**	**(527.5)**	**83.3**
	758.0	**(589.9)**	**168.1**
Financial liabilities			
Cash flow hedges	**(30.2)**	**27.3**	**(2.9)**
Non-designated foreign exchange forward contracts	**(1.8)**	**1.7**	**(0.1)**
Currency swaps	**(13.5)**	**12.5**	**(1.0)**
Fixed rate interest rate swaps	**(26.6)**	**26.6**	**–**
Term loan	**(200.0)**	**100.0**	**(100.0)**
Overdrafts	**(453.0)**	**421.8**	**(31.2)**
	(725.1)	**589.9**	**(135.2)**

At 31 December 2012	Gross and net amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets			
Currency swaps	206.5	(129.7)	76.8
Interest rate swaps	15.9	–	15.9
Cash at bank	747.3	(490.7)	256.6
	969.7	(620.4)	349.3
Financial liabilities			
Cash flow hedges	(22.5)	22.5	–
Non-designated foreign exchange forward contracts	(0.4)	0.3	(0.1)
Currency swaps	(0.3)	0.3	–
Fixed rate interest rate swaps	(52.9)	52.9	–
Term loan	(185.0)	103.8	(81.2)
Overdrafts	(440.6)	440.6	–
	(701.7)	620.4	(81.3)

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 2013 and 31 December 2012.

The table below presents quantitative data for the components the Group manages as capital:

	2013 £m	2012 £m
Shareholders' funds	**896.3**	878.1
Cash in hand	**(610.8)**	(747.3)
Overdraft	**453.0**	440.6
Unsecured loan notes	**10.4**	0.5
Obligations under finance leases	**17.3**	2.7
Bonds	**1,267.3**	1,370.1
Currency and interest rate swaps	**(133.6)**	(222.1)
At 31 December	**1,899.9**	1,722.6

27 Issued share capital

Allotted, called up and fully paid	2013 m	2012 m	2013 £m	2012 £m
Ordinary shares of 2 1/15p each				
At 1 January	**668.4**	627.6	**13.8**	13.0
Issue of share capital	**0.4**	40.0	**0.0**	0.8
Issued on exercise of share options	**1.0**	0.8	**–**	–
At 31 December	**669.8**	668.4	**13.8**	13.8

During the year 1.0m (2012: 0.8m) ordinary 2 1/15p shares with an aggregate nominal value of £20,160 (2012: £16,810) were issued under share option schemes for a total consideration of £6.3m (2012: £4.8m).

In October 2013, the Company issued 0.4m ordinary shares as part of the acquisition of ParkingEye Limited for a consideration of £4.1m.

Treasury shares	2013 m	2012 m	2013 £m	2012 £m
Ordinary shares of 2 1/15p				
At 1 January	**13.4**	14.2	**0.3**	0.3
Shares allotted in the year	**(2.3)**	(0.8)	**–**	–
At 31 December	**11.1**	13.4	**0.3**	0.3

In 2013, the Group made no purchases of shares into Treasury and allotted 2.3m (2012: 0.8m) shares with an aggregate nominal value of £47,468 (2012: £16,527). The total consideration received in respect of these shares was £7.6m (2012: £5.1m).

Employee benefit trust shares	2013 m	2012 m	2013 £m	2012 £m
Ordinary shares of 2 1/15p				
At 1 January	**3.3**	5.1	**0.1**	0.1
Shares allotted in the year	**(0.8)**	(1.8)	**–**	–
At 31 December	**2.5**	3.3	**0.1**	0.1

The Group will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 0.8m (2012: 1.8m) ordinary 2 1/15p shares with an aggregate nominal value of £16,337 (2012: £37,056) to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £2.8m (2012: £1.1m).

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

28 Share based payment plans

The Group operates several share based payment plans. The expense recognised for share based payments in respect of employee services received during the year to 31 December 2013 was £10.5m (2012: £9.1m), all of which arises from equity-settled share based payment transactions. Details of the schemes are as follows:

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report on pages 78 to 92) and Matching Shares.

The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. Directors have the option to defer up to 100% of their annual bonus into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 2 Matching Shares for every Deferred Share. Prior to 2010 Matching Shares will vest after the 3 year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

The vesting conditions for matching awards made in 2010 were such that 33% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 14% per annum.

The vesting conditions for matching awards made in 2011 were such that 33% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

There were no issues under the Deferred Annual Bonus Plan in 2012.

The vesting conditions for matching awards made in 2013 were such that 33% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

Long Term Incentive Plan (2008 LTIP)

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards will depend on share price growth and EPS growth targets measured over a 3 year period. An award will not vest if Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme.

28 Share based payment plans (continued)

Long Term Indexed Share Appreciation Scheme (LTISAS)

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with 2 equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was restated in line with the FTSE All Share Index from the date of grant to 25 November 2007. The restated exercise prices were £3.48 for the 2002 award and £4.74 for the 2004 award. This feature ensured that participants only gained if the share price outperformed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets.

As growth in the Company's EPS over the 3 year period to 31 December 2006 exceeded RPI growth by 17.6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007.

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards will be made under this plan. All shares in this plan have now been exercised.

1997 Executive Share Option Scheme

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the 3 year vesting period from the date of grant. The contractual life of each option granted is 7 years. There are no cash settlement alternatives.

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at the market price at the date of grant. The options become exercisable for a 6 month period following completion of a 3 year savings period. There are no performance conditions attached to these options.

2011 Co-Investment Plan

The Co-Investment Plan was approved at the AGM on 10 May 2011 and provides for a grant of three times the number of Company shares pledged by Chief Executive Paul Pindar (the sole participant) before the end of 2011, up to a maximum limit of £1.0m in total market value of shares pledged. The number of matching shares vesting is determined on the basis of Total Shareholder Return (TSR) as compared to the increase in the TSR of the FTSE 100 over the 4-year performance period from the date of grant. No shares will vest if over the performance period the Company's TSR is lower than the median; 33.33% will vest if it is equal to median and 100% will vest if ranked in the upper quartile when compared against the FTSE 100 TSR. Between median TSR and top quartile the number of shares vesting will be on a straight-line basis in proportion to the position achieved by the Company. No plan shares will vest if the EPS of Capita plc has not grown over the performance period.

During the year ended 31 December 2011 the total number of shares pledged was 137,362 with a market value of £1.0m. The maximum matching shares under the plan amounted to 412,087 with a market value of £4.3m at 31 December 2013.

Following Paul Pindar's retirement on 28 February 2014, awards outstanding under the Long Term Incentive Plans and the Co-Investment Plan at the date of his retirement will continue until their maturity. Such awards will vest subject to the existing performance conditions and will be pro rata reduced for the vesting time period post retirement. The Deferred Annual Bonus Plan matching award made in 2013 will lapse.

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)

	2013 Million	**2013 WAEP**	2012 Million	2012 WAEP
Outstanding as at 1 January	**4.4**	**£6.77**	7.0	£6.68
Granted during the year	**–**	**–**	–	–
Exercised	**(2.0)**	**£6.64**	(1.8)	£6.36
Forfeited	**(0.1)**	**£6.39**	(0.7)	£6.94
Expired during the year	**(0.1)**	**£6.90**	(0.1)	£6.94
Outstanding as at 31 December	**2.2**	**£6.89**	4.4	£6.77
Exercisable at 31 December	**1.6**	**£5.54**	1.9	£5.88

The weighted average remaining contractual life of the above shares outstanding at 31 December 2013 was 1.5 years (2012: 2.3 years).

2008 LTIP

	2013 Million	**2013 WAEP**	2012 Million	2012 WAEP
Outstanding as at 1 January	**7.3**	**–**	6.6	–
Awarded during the year	**3.4**	**–**	3.1	–
Exercised	**(1.3)**	**–**	(1.4)	–
Forfeited	**(0.8)**	**–**	(1.0)	–
Outstanding as at 31 December	**8.6**	**–**	7.3	–
Exercisable at 31 December	**0.6**	**–**	0.2	–

The weighted average remaining contractual life of the above shares outstanding at 31 December 2013 was 1.5 years (2012: 1.5 years).

28 Share based payment plans (continued)

LTISAS

	2013 Million	2013 WAEP	2012 Million	2012 WAEP
Outstanding as at 1 January	0.6	£4.74	0.6	£4.74
Exercised	(0.6)	£4.74	–	–
Outstanding as at 31 December	–	–	0.6	£4.74
Exercisable at 31 December	–	–	0.6	£4.74

There is no weighted average remaining contractual life of the above shares outstanding at 31 December 2013 (2012: 1.9 years).

The weighted average share price of options at the date of exercise in 2013 was £8.53. The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £9.41 (2012: £7.06).

Under the LTISAS scheme 2 tranches of 600,000 share options were issued to each participant in the scheme. Both were deemed to have been granted in November 2002. The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2.16. The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3.51. Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4.11. All shares in this plan have now been exercised.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £2.2m (2012: £nil). The Matching Shares allocation in respect of the 2012 awards under this plan charged in 2013 was £0.5m (2012: £nil).

The weighted average fair value of options granted/awarded during the year was £4.15 (2012: £4.03). The range of exercise prices for all options outstanding at the end of the year was £3.62 to £7.16 (2012: £2.60 to £7.25).

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 2013 and 31 December 2012.

	2013	2012
Dividend yield (%)	2.93	2.98
Expected share price volatility (%)	23.00	21.00
Floor price for LTIP (applicable to LTIP 08)	£8.24	£7.18
Risk free interest rate (%)	0.50	0.50
Expected life of option (years)	3.00	3.00
Weighted average share price of options granted during the year	–	–

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

29 Additional cash flow information

Reconciliation of net cash flow to movement in net funds/(debt)

	Net debt at 1 January 2013 £m	Acquisitions in 2013 (excl. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2013 £m
Cash, cash equivalents and overdrafts	306.7	–	(148.8)	(0.1)	157.8
Loan notes	(0.5)	–	0.1	(10.0)	(10.4)
Bonds[1]	(1,370.1)	–	13.1	89.7	(1,267.3)
Currency swaps in relation to US$ denominated bonds[1]	206.2	–	–	(80.3)	125.9
Interest rate swaps in relation to GBP denominated bonds[1]	15.9	–	–	(8.2)	7.7
Long term debt	–	(14.2)	14.2	–	–
Term loan	(185.0)	–	185.0	–	–
New Term loan	–	–	(200.0)	–	(200.0)
Finance leases	(2.7)	(25.4)	10.8	–	(17.3)
Underlying net debt	(1,029.5)	(39.6)	(125.6)	(8.9)	(1,203.6)
Fixed rate interest rate swaps	(52.9)	–	–	26.3	(26.6)
	(1,082.4)	(39.6)	(125.6)	17.4	(1,230.2)

[1] The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,133.7m (2012: £1,148.0m).

The aggregate bond fair value above of £1,267.3m (2012: £1,370.1m) (disclosed in note 22 – Financial liabilities) includes the GBP value of the US$ denominated bonds at 31 December 2013. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the underlying bond fair value. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds.

The combined fair value of the interest and currency swaps, of £133.6m (2012: £221.1m), is disclosed in note 16 – Financial assets, and in note 22 – Financial liabilities.

Notes to the consolidated financial statements

29 Additional cash flow information (continued)

	Net debt at 1 January 2012 £m	Acquisitions in 2012 (excl. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2012 £m
Cash, cash equivalents and overdrafts	62.4	–	245.0	(0.7)	306.7
Loan notes	(2.3)	–	2.3	(0.5)	(0.5)
Bonds[1]	(1,432.2)	–	24.7	37.4	(1,370.1)
Revolving credit facility	(176.1)	–	178.0	(1.9)	–
Currency swaps in relation to US$ denominated bonds[1]	242.4	–	–	(36.2)	206.2
Interest rate swaps in relation to GBP denominated bonds[1]	13.5	–	–	2.4	15.9
Long term debt	–	(57.1)	57.1	–	–
Term loan	–	–	(185.0)	–	(185.0)
Finance leases	(3.1)	–	1.7	(1.3)	(2.7)
Underlying net debt	(1,295.4)	(57.1)	323.8	(0.8)	(1,029.5)
Fixed rate interest rate swaps	(44.7)	–	–	(8.2)	(52.9)
	(1,340.1)	(57.1)	323.8	(9.0)	(1,082.4)

[1] The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,133.7m (2012: £1,148.0m).

30 Capital commitments
At 31 December 2013, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2012: £0.1m).

31 Contingent liabilities
The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £88.4m (2012: £58.2m).

32 Employee benefits
The Group operates both defined benefit and defined contribution pension schemes.

The pension charge for the defined contribution pension schemes for the year is £62.7m (2012: £44.7m).

In 2013 there was 1 main defined benefit pension scheme where the Group is the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: two further schemes where the Group is the sole employing sponsor which transferred to the Group as a result of the acquisitions of Northgate Managed Services Limited and iQor UK during 2013; an allocated section of a local government pension scheme where the Group is the employing sponsor; a segregated section of a multi-employer scheme in which the Group is a participating employer; a segregated 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, the Group will only participate in the schemes for a finite period up to the end of the contract with the client.

These pension schemes are HMRC registered pension schemes and are subject to standard UK pensions and tax law. Details of the benefits provided by the schemes are set out in each schemes' documentation.

For those schemes to which the Group makes contributions under Admitted Body status (which are all part of the Local Government Pension Scheme) and the allocated section of a local government pension scheme, responsibility for the governance of the schemes lies with boards which operate under a framework of corporate governance and are responsible for following the relevant statutory regulations.

For the other schemes, responsibility for the governance of the schemes lies with the trustees of the scheme and the nature of the relationship between the Group and the trustees is governed by regulations. The appointment of trustees is determined by the trust documentation.

The assets of the schemes are held in separate funds (administered by the trustees of the scheme or on behalf of the board in the case of the local government pension schemes) to meet long term pension liabilities to beneficiaries.

The trustees or boards (as appropriate) of the schemes invest the assets in line with the Statement of Investment Principles.

The Statement of Investment Principles has been established after taking into consideration the liabilities of the schemes and the investment risk that the trustees or boards (as appropriate) are willing to accept – for those schemes governed by trustees the Group will have been consulted before the Statement of Investment Principles was formally adopted.

For the non-local government pension schemes the scheme funding regime introduced by the Pensions Act 2004 required trustees to carry out regular funding assessments of the schemes and establish schedules of contributions and recovery plans when there is a shortfall in the schemes. The recovery plans detail the amount and timing of the contributions required to eliminate the shortfall in the schemes. Funding assessments are carried out at least every 3 years. Approximate funding updates are produced at each scheme anniversary, when a full scheme funding assessment is not being undertaken.

At each scheme funding assessment the present value of the contributions detailed in the current recovery plans is compared with any shortfall revealed. Where the contributions under the current recovery plans are no longer expected (by the end of periods specified in the recovery plans) to be sufficient to remove the shortfall, new recovery plans will need to be agreed between the trustees and the Group. Options include increasing contributions due from the Group, extending the recovery periods with additional contributions paid after the expiry of current recovery periods or some combination of the 2. The affordability to the Group of any increase in contributions is a primary consideration in the agreement of any new recovery plan.

Where the contributions are more than sufficient to remove the shortfall by the end of the recovery period, options include reducing contributions due, keeping the recovery period the same, or shortening the recovery period.

The most recent funding assessment of the Capita scheme was carried out as at 6 April 2011 and the level of funding disclosed was such that no recovery plan was required. The next scheme funding assessment will be carried out with an effective date of 6 April 2014.

32 Employee benefits (continued)

For the other non-local government pension schemes, the latest formal valuations for each scheme were carried out between 31 December 2009 and 31 October 2010.

For the local government pension schemes there is a similar funding regime which is set out in the Local Government Pension Scheme (Administration) Regulations 2008. For the Admitted Body schemes, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions.

In addition, the Group will be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. In respect of this the Group is carrying a sufficient level of provision in these financial statements.

During 2011 the contract with Cumbria County Council came to an end and the assets and pension obligations relating to the participants were transferred back to the Council. The respective Scheme Actuary determined that an additional payment was due and, as requested, the Group made a provisional payment of £10m to cover the estimated exit debt. During 2012 the final exit debt amount of circa £9.2m was notified to Capita and the overpayment refunded to Capita.

During 2012 the contract with Torfaen County Borough Council came to an end. This may result in an exit debt payment. Capita continues to be in discussion with Greater Gwent (Torfaen) Pension Fund regarding the amount of any exit debt that may be payable.

These defined benefit pension schemes expose the Group to actuarial risks, such as longevity risk, interest rate risk, salary risk, market (investment) risk and currency risk.

Further to a funding plan agreed with the Capita Scheme's Trustees in 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the Partnership) with the Capita Scheme. Under this arrangement intellectual property rights (IPR) in specific Group software was transferred to the partnership and the rights to use, develop and exploit this IPR was licensed back to the Group in return for an annual fee. The Capita Scheme's interest in the Partnership entitles it to an annual distribution of £8m for 15 years.

The Group's interest in the Partnership is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the partnership are not required to be, and have not been, filed at Companies House.

Under IAS 19 (Revised) the interest in the Partnership does not represent a plan asset for Group reporting purposes and therefore the Capita Scheme's deficit position presented in these accounts does not reflect the Capita Scheme's interest in the Partnership. Accordingly, distributions from the Partnership to the Capita Scheme are reflected in these Group accounts as pension contributions to the Capita Scheme on a cash basis as paid. The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are:

At 31 December 2013	Capita scheme £m	Other schemes £m	Group total £m
Scheme assets at fair value:			
Equities:			
– UK	77.8	16.0	93.8
– Overseas	176.8	44.4	221.2
– Private	–	1.9	1.9
	254.6	62.3	316.9
Debt securities:			
– UK Government	38.1	42.5	80.6
– UK Corporate	41.7	6.9	48.6
– Overseas Government	15.4	0.3	15.7
– Overseas Corporate	91.6	2.1	93.7
– Emerging Markets	24.6	0.2	24.8
– Private Debt[1]	5.2	–	5.2
– Secured Loans	–	8.8	8.8
	216.6	60.8	277.4
Property	50.5	5.4	55.9
Target Return	–	0.4	0.4
Infrastructure	–	1.1	1.1
Credit Funds	–	2.4	2.4
Asset Backed Securities	1.2	–	1.2
Hedge Funds	123.7	31.9	155.6
Insurance Contracts[1]	2.9	–	2.9
Cash	26.7	5.8	32.5
Other	–	1.9	1.9
	205.0	48.9	253.9
Total	676.2	172.0	848.2
Present value of scheme liabilities	(764.3)	(202.3)	(966.6)
Net liability	(88.1)	(30.3)	(118.4)

[1] The assets of the schemes are all quoted with the exception of the private debt holdings and insurance contracts in the Capita scheme.

32 Employee benefits (continued)

At 31 December 2012	Capita scheme £m	Other schemes £m	Group total £m
Scheme assets at fair value:			
Equities/hedge funds/absolute returns	407.3	36.6	443.9
Bonds	111.1	15.1	126.2
Property/US High Yield	92.5	4.7	97.2
Insurance contracts	6.2	–	6.2
Cash/other	–	1.7	1.7
Total	617.1	58.1	675.2
Present value of scheme liabilities	(707.4)	(75.9)	(783.3)
Net liability	(90.3)	(17.8)	(108.1)

There are no amounts included in the pension schemes' plan assets for the Group's own financial instruments, properties or other assets used by the Group.

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Group total Net defined liability	
	2013 £m	2012 Restated £m	2013 £m	2012 Restated £m	2013 £m	2012 Restated £m
Balance at 1 January	783.3	664.1	(675.2)	(578.4)	108.1	85.7
Included in the income statement:						
Current service cost	25.2	23.8	–	–	25.2	23.8
Administration costs	2.6	2.4	–	–	2.6	2.4
Past service cost including curtailments	0.3	(3.8)	–	–	0.3	(3.8)
Settlements	–	(0.2)	–	–	–	(0.2)
Interest cost/(income)	39.3	32.0	(34.6)	(28.4)	4.7	3.6
Sub-total in income statement	67.4	54.2	(34.6)	(28.4)	32.8	25.8
Included in other comprehensive income:						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	–	(4.2)	–	–	–	(4.2)
– financial assumptions	33.5	53.7	–	–	33.5	53.7
– experience adjustments	(9.8)	–	–	–	(9.8)	–
– changes in asset ceiling/minimum liability	(2.5)	–	–	–	(2.5)	–
Return on plan assets excluding interest	–	–	(32.1)	(29.7)	(32.1)	(29.7)
Sub-total in other comprehensive income	21.2	49.5	(32.1)	(29.7)	(10.9)	19.8
Employer contributions	–	–	(25.9)	(24.1)	(25.9)	(24.1)
Contributions by employees	0.4	0.5	(0.4)	(0.5)	–	–
Benefits paid	(21.6)	(18.6)	21.6	18.6	–	–
Contract bulk transfers/business combinations	115.9	33.6	(101.6)	(32.7)	14.3	0.9
Balance at 31 December	966.6	783.3	(848.2)	(675.2)	118.4	108.1

The defined benefit obligation comprises £966.6m (2012: £783.3m) arising from schemes that are wholly or partly funded.

Of the total pension cost of £32.8m (2012: £25.8), £23.1m (2012: £17.8m) was included in cost of sales, £5.0m (2012: £4.4m) was included in administrative expenses, and £4.7m in finance costs (2012: £3.6m).

32 Employee benefits (continued)

Capita scheme

	Defined benefit obligation 2013 £m	Defined benefit obligation 2012 Restated £m	Fair value of plan assets 2013 £m	Fair value of plan assets 2012 Restated £m	Net defined liability 2013 £m	Net defined liability 2012 Restated £m
Balance at 1 January	707.4	560.3	(617.1)	(499.9)	90.3	60.4
Included in the income statement:						
Current service cost	24.1	23.0	–	–	24.1	23.0
Administration cost	2.4	2.3	–	–	2.4	2.3
Past service cost including curtailments	0.3	1.2	–	–	0.3	1.2
Settlements	–	–	–	–	–	–
Interest cost/(income)	31.5	27.7	(27.8)	(24.9)	3.7	2.8
Sub-total in income statement	58.3	54.2	(27.8)	(24.9)	30.5	29.3
Included in other comprehensive income:						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	–	(4.2)	–	–	–	(4.2)
– financial assumptions	25.7	50.8	–	–	25.7	50.8
– experience adjustments	(9.8)	–	–	–	(9.8)	–
Return on plan assets excluding interest	–	–	(28.5)	(27.2)	(28.5)	(27.2)
Sub-total in other comprehensive income	15.9	46.6	(28.5)	(27.2)	(12.6)	19.4
Employer contributions		–	(20.1)	(20.9)	(20.1)	(20.9)
Contributions by employees	0.2	0.2	(0.2)	(0.2)	–	–
Benefits paid	(17.6)	(16.5)	17.6	16.5	–	–
Contract bulk transfers/business combinations	0.1	62.6	(0.1)	(60.5)	–	2.1
Balance at 31 December	764.3	707.4	(676.2)	(617.1)	88.1	90.3

Other schemes

	Defined benefit obligation 2013 £m	Defined benefit obligation 2012 Restated £m	Fair value of plan assets 2013 £m	Fair value of plan assets 2012 Restated £m	Net defined liability 2013 £m	Net defined liability 2012 Restated £m
Balance at 1 January	75.9	103.8	(58.1)	(78.5)	17.8	25.3
Included in the income statement:						
Current service cost	1.1	0.8	–	–	1.1	0.8
Administration cost	0.2	0.1	–	–	0.2	0.1
Past service cost including curtailment	–	(5.0)	–	–	–	(5.0)
Settlements	–	(0.2)	–	–	–	(0.2)
Interest cost/(income)	7.8	4.3	(6.8)	(3.5)	1.0	0.8
Sub-total in income statement	9.1	0.0	(6.8)	(3.5)	2.3	(3.5)
Included in other comprehensive income:						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	–	–	–	–	–	–
– financial assumptions	7.8	2.9	–	–	7.8	2.9
– experience adjustments	–	–	–	–	–	–
– changes in asset ceiling/minimum liability	(2.5)	–	–	–	(2.5)	–
Return on plan assets excluding interest	–	–	(3.6)	(2.5)	(3.6)	(2.5)
Sub-total in other comprehensive income	5.3	2.9	(3.6)	(2.5)	1.7	0.4
Employer contributions	–	–	(5.8)	(3.2)	(5.8)	(3.2)
Contributions by employees	0.2	0.3	(0.2)	(0.3)	–	–
Benefits paid	(4.0)	(2.1)	4.0	2.1	–	–
Contract bulk transfers/business combinations	115.8	(29.0)	(101.5)	27.8	14.3	(1.2)
Balance at 31 December	202.3	75.9	(172.0)	(58.1)	30.3	17.8

32 Employee benefits (continued)

Information about the Defined benefit obligation for the Capita Scheme:

	Proportion of overall liability %	Duration (years)
Active members	**16.0**	**25.0**
Deferred members	**50.0**	**25.0**
Pensioners	**34.0**	**14.0**
Total	**100.0**	**21.3**

Pension contributions are determined based on the advice of independent qualified actuaries. A formal valuation of the Capita scheme was carried out as at 6 April 2011. For the other schemes, the latest formal valuations were carried out as at either 31 December 2009 or 31 March 2010. The SIPS scheme was merged into the Capita scheme on 1 April 2012. The valuations for the other schemes are updated by qualified actuaries at each balance sheet date. Scheme assets are stated at their market valuations at each respective balance sheet date.

	Capita scheme		Other schemes	
Main assumptions:	**2013 %**	2012 %	**2013 %**	2012 %
Rate of price inflation – RPI/CPI	**3.3/2.3**	2.9/2.0	**3.3/2.3**	2.9/2.0
Rate of salary increase	**3.3**	3.9	**3.3**	3.9
Rate of increase of pensions in payment[1]:				
– RPI inflation capped at 5% pa	**3.2**	2.9	**3.2**	2.9
– RPI inflation capped at 2.5% pa	**2.2**	2.1	**2.2**	2.1
– CPI inflation capped at 5% pa	**2.3**	2.1	**2.3**	2.1
– CPI inflation capped at 2.5% pa	**1.8**	1.7	**1.8**	1.7
Discount rate	**4.5**	4.5	**4.5**	4.5
CARE active revaluation (inflation capped at 3.5% pa)	**2.8**	2.6	**2.8**	2.6
Expected take up maximum available tax free cash	**85.0**	85.0	**85.0**	85.0[2]

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2013 and 31 December 2012 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Capita scheme	**24.1**	24.0	**24.6**	24.5	**24.0**	24.0	**25.3**	25.2
Other schemes[3]	**22.3 to 22.8**	22.2	**24.2 to 25.1**	24.4	**23.6 to 25.8**	23.5	**26.0 to 27.0**	25.9

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.

Sensitivity Analysis

The table below shows how the value of the defined benefit obligations would change if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2013 actuarial assumptions	Capita scheme £m	Other schemes £m
0.1% increase in discount rate	**(15.0)**	**(3.0)**
0.1% change in salary increases	**1.0**	**–**
0.1% change in inflation (and related assumptions)	**12.0**	**2.0**
1 year increase in life expectancy	**20.0**	**5.0**

The total employer contributions to the defined benefit pension schemes in 2014 are estimated to be £19m in respect of the Capita scheme and £6m in respect of the 'Other' schemes.

33 Related party transactions

Compensation of key management personnel

	2013 £m	2012 £m
Short term employment benefits	8.1	7.6
Pension	0.2	0.1
Share based payments	6.0	3.6
	14.3	11.3

Gains on share options exercised in the year by Capita plc executive directors were £5.2m (2012: £2.6m) and by key management personnel £1.1m (2012: £2.0m), totalling £6.3m (2012: £4.6m).

The following companies are substantial shareholders in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority). The number of shares held on 20 February 2014 was as below:

Shareholder	No. of shares	% of voting rights
BlackRock Inc	36,153,457	5.49
Invesco Limited	131,356,538	19.93
Legal & General Group Plc	19,818,538	3.01
Veritas Asset Management (UK) Limited	42,647,140	6.47

Statement of Directors' responsibility

The Directors confirm that, to the best of their knowledge:

a) the consolidated financial statements in this report, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole;

b) the parent company financial statements in this report, which have been prepared in accordance with United Kingdom Accounting Standards (UK GAAP) and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

c) the management report contained in this report includes a fair review of the development and performance of the business and position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

26 February 2014

Independent Auditor's report to the members of Capita plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Capita plc for the year ended 31 December 2013 set out on pages 94 to 135 and 141 to 147. 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 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

2.1 Accounting for major contracts

Refer to page 68 (Audit Committee Report), and page 99 (accounting policy notes 2(e) and 2(f)).

The risk

The majority of the Group's revenue is service revenue, sometimes derived from contracts which have separately identifiable components. Some of these components may require long term contract accounting principles to be applied.

We consider accounting for major contracts a significant audit risk as a result of the following, all of which can affect the contract revenue and profit recognised:

- the quantum of revenue derived from these contracts;
- the judgement in interpreting some contract terms and conditions;
- the judgement involved in estimating the fulfilment of contract obligations; and
- the potential for disputes over contract assets and liabilities.

Revenue and profit from service contracts are recognised as the Group delivers the services. Under long term contract accounting, the Group recognises revenue and profit by reference to the stage of completion, which is derived from the costs incurred to date and an estimate of the expected costs of completing the contract obligations, and this involves judgement.

As a result of applying contract accounting, the Group also recognises contract assets and liabilities as appropriate. These include amounts earned and not yet billed, or amounts capitalised as direct incremental contract costs prior to service commencement. There is a risk that these assets are not recoverable. Where total contract costs are expected to exceed total contract revenues, the Group must also immediately recognise the full estimated contract loss through the income statement, and raise the appropriate contract liability.

Our response

Our audit procedures included, among others, selecting contracts based on quantitative factors (for example, those with the greatest impact on the Group's financial results, or with the largest contract assets recognised) and qualitative factors (for example, new contracts entered into during the financial year or where the payment profile may not reflect the timing of revenue recognition). For each of those contracts:

- we tested controls over the monitoring of contract performance and costs. Controls include the review of contracts' performance by the Group's Executive Board of Directors through the monthly Management Operations Business reviews, where the divisional financial director and divisional managing director of each division presents details of performance and business developments to the Group's Executive Board Directors;
- we obtained, through interview of key contract finance and operational personnel, an understanding of the contract and corroborated this with reference to the contract terms;
- if the contract was new in the year, we evaluated, by reference to the relevant accounting standards and inspection of contract terms, the contract accounting applied by the Group;
- if the contract existed in prior financial years, but was subject to significant changes in the current financial year, we assessed whether the accounting treatment remained appropriate;
- we assessed whether the amounts recognised in the financial statements, particularly where the Group made estimates or applied judgement relating to contract assets and liabilities, represented a supported view of the contract position. We assessed the estimates over these amounts with reference to relevant accounting standards and inspection of contract terms. We analysed correspondence with customers and other parties, and considered whether this information was consistent with the judgements made by the Group.

2.2 Acquisition accounting (total fair value to Group recognised on acquisition, £356.6million)

Refer to page 69 (Audit Committee Report), page 101 (accounting policy note 2(j)) and pages 114 to 116 (financial disclosures in note 17).

The risk

During the year the Group acquired businesses for a total consideration of £356.6million. Under the requirements of the relevant accounting standards, the Group has assessed the fair value of the identifiable assets and liabilities acquired in these transactions. Judgement is required over the fair value of these assets and liabilities acquired and an inappropriate judgement, error or omission in the calculation may lead to a misstatement in the balance of goodwill, which, unlike intangible assets acquired, is not amortised.

We consider these estimates to be significant audit risks because of the impact the acquisitions have on the financial statements, and the inherent judgement involved in estimating the fair value of the assets and liabilities acquired. Additionally, if the Group adjusts fair values in subsequent periods, this can affect the income statement in those periods, and consequently acquisition accounting can impact earnings over the long term.

2.2 Acquisition accounting (total fair value to Group recognised on acquisition, £356.6million) (continued)

Our response

Our audit procedures included, among others, considering a selection of acquisitions made during the year based on quantitative and qualitative factors. The sample selected included those acquisitions with the greatest impact on the Group's financial results, and those containing the greatest degree of judgement. For each of these acquisitions:

- we challenged the key assumptions and methodologies used by the Group to identify the identifiable assets and liabilities acquired and determine their fair values. We discussed these with the Group and corroborated the explanations provided by comparing these assumptions to market data, our past experience of similar transactions, and the Group's business plan supporting the acquisition;
- where available, we compared the amounts recognised to supporting external documentation or correspondence;
- we considered the appropriateness of the accounting for significant fair value adjustments in subsequent periods with reference to the acquisition accounting standard, and considered the presentation and disclosure of material adjustments in the financial statements; and
- we have considered the adequacy of the disclosure of acquisitions in the accounts.

2.3 Carrying value of intangible assets and goodwill (£2,330.7million)

Refer to page 69 (Audit Committee Report), page 101 (accounting policy note 2(k)) and pages 112 to 113 (financial disclosures in note 14 and 15).

The risk

The individual assets included in intangible assets and goodwill would be impaired where their recoverable amount has fallen below their carrying value.

We consider the impairment of intangible assets and goodwill to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability.

Our response

Our audit procedures included, among others, obtaining the Group's discounted cash flow model that tests the carrying value of the relevant CGUs including associated intangible assets and goodwill, and we:

- compared the total amount of discounted cash flows as per the Group's calculations to the Group's market capitalisation.
- tested the integrity of the Group's discounted cash flow model;
- assessed the appropriateness of any changes in the composition of cash generating units with reference to our understanding of the business;
- evaluated the cash flows used in the model compared to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit, and determined if these cash flows were reasonable;
- used external data and our own assessments using our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rates;
- performed sensitivity and break-even analysis for these key inputs and assumptions, and identified those cash generating units we consider most sensitive to impairment; and
- assessed the Group's disclosures about the sensitivity of the outcome of their assessment to ensure that these disclosures reflected the risks identified. In particular, for the Group's Insurance and Benefits Services cash generating unit, we have considered the disclosure provided.

2.4 Treatment of disposal and planned closure of businesses (loss on disposal, £82.1million; operating loss, £64.6million)

Refer to page 69 (Audit Committee Report), pages 98 and 102 (accounting policy note 2(c) and 2(q)) and page 105 (financial disclosures in note 4).

The risk

In the year, the Group disposed of its Insurance distribution businesses and announced the planned closure of its Self Invested Pensions administration business (hereafter, "the events"). The Group has elected to present the loss of £82.1million arising from these events and the operating loss of £64.6million from these businesses in a separate non-underlying "business disposal/closure" column on the face of the income statement.

We consider the treatment in the financial statements of these events a significant audit risk because of the judgement required in calculating some of the amounts included in the loss on disposal. Accurate and complete identification of the assets disposed of or written down, and recognising related liabilities triggered by the events, is necessary.

The impact of excluding current year trading losses from "underlying" results requires that only those trading operating losses directly relating to these businesses should be separately presented in the non-underlying "business disposal/closure" column so as not to distort the view of the Group's underlying performance when adjusted for trading operating losses relating to these businesses.

Our response

We selected amounts presented in the non-underlying "business disposal/closure" column based on quantitative and qualitative factors (such as provisions made in respect of disposal and closure costs, and assets and liabilities disposed of or written down, and the operating losses from these businesses). For the items selected, we performed the following procedures, among others:

- assessed whether costs and losses provided for have been recognised in accordance with accounting standards by challenging the basis for recognising these costs and losses;
- assessed whether assets written down specifically relate to the disposed of and closing businesses and cannot be redeployed;
- assessed whether items are categorised appropriately across trading and non-trading; and
- considered the adequacy of the disclosures made in respect of the events.

3. Our application of materiality and an overview of the scope of our audit
The materiality for the Group financial statements as a whole was set at £15.0million. This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. Materiality represents 7.0% of Group profit before tax and 5.0% of Group profit before tax adjusted for the loss on business disposal/closure as presented on the face of the income statement.

We agreed with the audit committee to report to it all individual uncorrected misstatements we identified through our audit with a profit impact in excess of £0.75million and a balance sheet impact in excess of £11.3million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at two key reporting components in the United Kingdom and Guernsey and by the Group audit team at 22 key components in the United Kingdom. These Group procedures covered approximately 80% of total Group revenue; 85% of Group profit before taxation; and 96% of total Group assets.

The audits were performed to the local materiality levels set individually for each component and agreed with the group team, unless this exceeded materiality for the group financial statements as a whole, in which case the materiality level was set at 95% of materiality for the group financial statements as a whole. As such, materiality for these audits ranged from £0.3million to £14.25million.

Detailed audit instructions were sent to the component auditors. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. Telephone meetings were also held with the auditors at all locations.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 74, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 63 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 77, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Sean McCallion (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

26 February 2014

Five year summary

for the year ended 31 December 2013

Group balance sheet	2013 £m	Restated 2012 £m	Restated 2011 £m	Restated 2010 £m	Restated 2009 £m
Non-current assets	**2,994.5**	2,605.3	2,518.7	2,011.6	1,570.2
Current assets	**1,607.6**	1,710.6	1,018.8	848.7	801.9
	4,602.1	4,315.9	3,537.5	2,860.3	2,372.1
Liabilities	**(3,590.9)**	(3,359.2)	(2,949.7)	(2,307.2)	(1,857.9)
Provision for liabilities and charges	**(114.9)**	(78.6)	(63.7)	(57.6)	(48.0)
	896.3	878.1	524.1	495.5	466.2
Capital and reserves	**896.3**	878.1	524.1	495.5	466.2
Group income statement					
Turnover	**3,896.2**	3,351.8	2,930.2	2,744.0	2,686.8
Underlying operating profit	**516.9**	466.7	417.0	386.4	352.4
Other income/(expense)	**–**	–	(0.2)	0.9	0.2
Net interest payable	**(41.9)**	(49.7)	(40.2)	(31.6)	(30.9)
Underlying profit before taxation	**475.0**	417.0	376.6	355.7	321.7
Intangible amortisation	**(122.2)**	(95.3)	(67.7)	(41.3)	(28.1)
Arch cru costs	**(1.7)**	–	–	–	(30.0)
Professional fees and stamp duty on acquisitions	**(14.3)**	(10.3)	(15.4)	(6.5)	–
Goodwill impairment net of contingent consideration movements	**(1.7)**	(10.2)	11.2	–	–
Impairment of Optima investment loan	**–**	(15.0)	–	–	–
Business disposal/closure costs	**(64.6)**	–	–	–	–
Financial instruments – mark to market	**25.1**	(8.7)	(7.1)	(6.6)	1.1
Loss on business disposal	**(82.1)**	–	–	–	(7.5)
Derivatives credit risk – mark to market	**1.5**	3.9	(3.3)	–	(2.5)
Taxation	**(43.1)**	(52.0)	(62.7)	(72.5)	(68.2)
Profit after taxation	**171.9**	229.4	231.6	228.8	186.5
Basic earnings per share – underlying	**59.40p**	52.12p	47.44p	43.97p	38.36p
Basic earnings per share – after non-underlying	**27.05p**	36.04p	38.11p	37.43p	30.36p
Diluted earnings per share – underlying	**58.71p**	51.55p	47.33p	43.47p	38.04p
Diluted earnings per share – after non-underlying	**26.74p**	35.65p	38.02p	37.00p	30.11p
Dividend per ordinary share	**26.5p**	23.5p	21.4p	20.0p	16.80p

The comparative figures for 2009 to 2012 have been restated to reflect the retrospective application of IAS 19 Revised – Employee Benefits.

Company balance sheet

as at 31 December 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Tangible assets	5	17.0	17.1
Investments	7	339.7	300.3
		356.7	317.4
Current assets			
Trade investments	7	0.1	0.1
Financial assets	6	0.1	–
Debtors due within 1 year	8	790.1	898.5
Debtors due after more than 1 year	8	125.3	191.9
Cash		118.0	257.2
		1,033.6	1,347.7
Creditors: amounts falling due within 1 year	9	119.0	363.0
Net current assets		914.6	984.7
Total assets less current liabilities		1,271.3	1,302.1
Creditors: amounts falling due after more than 1 year	9	270.1	472.6
		1,001.2	829.5
Capital and reserves			
Called up share capital	11	13.8	13.8
Employee benefit trust and treasury shares	12	(0.4)	(0.4)
Share premium account	12	491.2	470.4
Capital redemption reserve	12	1.8	1.8
Merger reserve	12	44.6	44.6
Profit and loss account	12	450.2	299.3
		1,001.2	829.5

The accounts were approved by the Board of Directors on 26 February 2014 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

1 Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. There were no new Financial Reporting Standards issued by the UK Financial Reporting Council (FRC) which were required to be adopted in the year.

A separate profit and loss account dealing with the results of the parent undertaking only has not been presented as provided by Section 408 of the Companies Act 2006.

(b) Tangible fixed assets

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost on a straight-line basis over the expected useful lives of the assets concerned, as follows:

Computer equipment	3 to 10 years
Furniture, fixtures and equipment	4 to 5 years
Leasehold improvements	over the period of the lease

(c) Investments

Fixed asset investments are shown at cost, less provisions for impairment.

Investments held as current assets are stated at the lower of cost and net realisable value.

The carrying values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

(d) Pension schemes

The Company maintains a number of contracted-out defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking of the Company, which pays the Group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of that company.

(e) Leasing commitments

Assets obtained under finance leases are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful economic lives.

The finance charges under finance leases and hire purchase contracts are allocated to accounting periods over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals due under operating leases are charged on a straight-line basis over the lease term.

(f) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, taxation, with the following exceptions:

- provision is made for taxation on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to taxation only where the replacement assets are sold
- provision is made for deferred taxation that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date.

(g) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

(h) National Insurance on share option gains

National Insurance on outstanding share options at the year-end has been grossed up and shown as a provision and a receivable on the balance sheet.

(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

	2013 £m	2012 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	**(0.7)**	(1.0)
Share based payments	**3.2**	3.5
Cash flow hedges	**6.4**	5.2
Fixed rate interest rate swaps	**5.3**	12.1
Provisions	**0.7**	1.2
Included in debtors – note 8	**14.9**	21.0

3 Profit/Loss attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £299.5m (2012: loss of £92.1m).

4 Dividends

	2013 £m	2012 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2012 paid: 15.6p per share (2011: 14.2p per share)	**102.1**	86.7
Interim for 2013 paid: 8.7p per share (2012: 7.9p per share)	**57.0**	51.4
	159.1	138.1
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2013: 17.8p per share (2012: 15.6p per share)	**116.9**	101.3

Notes to the accounts

5 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2013	31.3	0.2	1.0	32.5
Additions	**3.5**	**–**	**0.1**	**3.6**
Asset retirements	**(2.1)**	**–**	**–**	**(2.1)**
31 December 2013	**32.7**	**0.2**	**1.1**	**34.0**
Depreciation				
1 January 2013	14.7	0.1	0.6	15.4
Charge for year	**3.6**	**–**	**0.1**	**3.7**
Asset retirements	**(2.1)**	**–**	**–**	**(2.1)**
31 December 2013	**16.2**	**0.1**	**0.7**	**17.0**
Net book value at:				
1 January 2013	16.6	0.1	0.4	17.1
31 December 2013	**16.5**	**0.1**	**0.4**	**17.0**

6 Financial assets

Current	**2013 £m**	2012 £m
Cash flow hedges	**0.1**	–

7 Investments
(a) Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2013	300.3
Additions	**65.6**
Impairment	**(0.5)**
Disposals	**(25.7)**
31 December 2013	**339.7**

During the year the Company acquired the entire share capital of ParkingEye Limited for a cash consideration of £30.8m, deferred consideration of £23.9m, and equity issue of £4.1m. The Company also increased its investment in Capita Fiduciary (UK) Holdings Limited by £6.8m. During the year, the Company impaired its investment in Brokers Educational Supply Teachers Underwriting Agency Limited to its net book value.

Principal investments	Country of registration and operation	Proportion of nominal value of issued shares held by the Company	Description of shares held
Capita Holdings Limited[1]	England	100%	Ordinary £1 shares
Capita Business Services Limited*[2]	England	100%	Ordinary £1 shares
Capita Property and Infrastructure Limited*[2]	England	100%	Ordinary £1 shares
Capita Employee Benefits (Consulting) Limited*[2]	England	100%	Ordinary £1 shares
Capita Registrars Limited*[2]	England	100%	Ordinary £1 shares
Capita Trust Company Limited*[2]	England	100%	Ordinary £1 shares
Capita Life & Pensions Services Limited[2]	England	100%	Ordinary £1 shares
Capita Life & Pensions Regulated Services Limited[2]	England	100%	Ordinary £1 shares
Capita Resourcing Limited*[2]	England	100%	Ordinary £1 shares
Capita IT Services Limited*[2]	England	100%	Ordinary £1 shares
Capita IT Services (BSF) Limited*[2]	England	100%	Ordinary £1 shares
Capita Medical Reporting Limited*[2]	England	100%	Ordinary £1 shares
Capita Employee Benefits Limited*[2]	England	100%	Ordinary £1 shares
Capita Customer Management Limited*[2]	England	100%	Ordinary £1 shares
Capita International Limited[2]	England	100%	Ordinary £1 shares
Capita Managed IT Solutions Limited*[2]	England	100%	Ordinary £1 shares
Capita Secure Information Solutions Limited*[2]	England	100%	Ordinary £1 shares
Axelos Limited*[2]	England	51%	Ordinary £1 shares
Entrust Support Services Limited*[2]	England	51%	Ordinary £1 shares
Fish Administration Limited*[2]	England	100%	Ordinary £1 shares
Knowledgepool Group Limited*[2]	England	100%	Ordinary £1 shares
ParkingEye Limited*[2]	England	100%	Ordinary £1 shares
Service Birmingham Limited*[2]	England	100%	Ordinary £1 shares
Team 24 Limited*[2]	England	100%	Ordinary £1 shares
Tascor Services Limited*[2]	England	100%	Ordinary £1 shares

[1] Investing holding company [2] Outsourcing services company * Indirectly held

Details of all subsidiaries, as required under s409 Companies Act 2006, will be annexed to the next Annual Return of the Company filed will the UK Registrar of Companies.

7 Investments (continued)

(b) Trade investments

	£m
At 1 January 2013 and 31 December 2013	0.1

8 Debtors

Debtors due within 1 year	2013 £m	2012 £m
Amounts owed by subsidiary undertakings	721.8	828.0
Taxation recoverable	47.6	54.0
Other debtors	14.0	3.0
Currency swap – USD bonds	6.7	6.9
Prepayments and accrued income	–	6.6
	790.1	898.5

Debtors due beyond 1 year	2013 £m	2012 £m
Prepayments and accrued income	1.0	1.4
Deferred taxation	14.9	21.0
Currency swap	101.6	153.5
Interest rate swap	7.8	16.0
	125.3	191.9

9 Creditors

Amounts falling due within 1 year	2013 £m	2012 £m
Bank overdraft	55.3	189.5
Amounts owed to subsidiary undertakings	–	52.8
Trade creditors	1.7	1.6
Other creditors	0.1	–
Cash flow hedges	6.5	2.9
Fixed rate interest rate swaps	0.2	1.4
Bonds	–	95.0
Other taxes and social security	1.7	0.7
Provisions	7.6	6.6
Accruals and deferred income	22.0	12.5
Deferred consideration payable	23.9	–
	119.0	363.0

Amounts falling due after more than 1 year	2013 £m	2012 £m
Bonds	204.7	215.7
Term loan	–	185.0
Currency swaps	13.5	0.3
Fixed rate interest rate swaps	26.4	51.5
Cash flow hedges	25.5	20.1
	270.1	472.6

The bonds are unsecured. The bank overdraft is guaranteed by cash held by other members of the Group.

10 Deferred taxation

	£m
At 1 January 2013	(21.0)
Utilisation of provisions in the year	6.1
At 31 December 2013 – included in debtors note 8	(14.9)

11 Share capital

	2013 Million	2012 Million	2013 £m	2012 £m
Allotted, called up and fully paid				
Ordinary shares of $2\frac{1}{15}$p each				
At 1 January	668.4	627.6	13.8	13.0
Issue of share capital	0.4	40.0	–	0.8
Issued on exercise of share options	1.0	0.8	–	–
At 31 December	669.8	668.4	13.8	13.8

During the year 1.0m (2012: 0.8m) ordinary $2\frac{1}{15}$p shares with an aggregate nominal value of £20,160 (2012: £16,810) were issued under share option schemes for a total consideration of £6.3m (2012: £4.8m).

In October 2013 the Company issued 0.4m ordinary shares as part of the acquisition of ParkingEye Limited for consideration of £4.1m.

Notes to the accounts

11 Share capital (continued)

Treasury shares

	2013 Million	2012 Million	2013 £m	2012 £m
Ordinary shares of $2^{1}/_{15}$p each				
At 1 January	**13.4**	14.2	**0.3**	0.3
Shares allotted in the year	**(2.3)**	(0.8)	**–**	–
At 31 December	**11.1**	13.4	**0.3**	0.3

During the year the Group allotted 2.3m (2012: 0.8m) treasury shares with a nominal value of £47,468 (2012: £16,527). The total consideration received in respect of these shares was £7.6m (2012: £5.1m).

Employee benefit trust shares

	2013 Million	2012 Million	2013 £m	2012 £m
Ordinary shares of $2^{1}/_{15}$p each				
At 1 January	**3.3**	5.1	**0.1**	0.1
Shares allotted in the year	**(0.8)**	(1.8)	**–**	–
At 31 December	**2.5**	3.3	**0.1**	0.1

The Company will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 0.8m (2012: 1.8m) ordinary $2^{1}/_{15}$p shares with an aggregate nominal value of £16,337 (2012:£37,056) to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £2.8m (2012: £1.1m).

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 and treasury shares £m	Profit and loss account £m
At 1 January 2013	470.4	1.8	44.6	(0.4)	299.3
Shares issued	**20.8**	**–**	**–**	**–**	**–**
Share based payment	**–**	**–**	**–**	**–**	**10.5**
Shares allotted in the year	**–**	**–**	**–**	**–**	**–**
Equity dividends paid	**–**	**–**	**–**	**–**	**(159.1)**
Retained profit for the year	**–**	**–**	**–**	**–**	**299.5**
At 31 December 2013	**491.2**	**1.8**	**44.6**	**(0.4)**	**450.2**

13 Reconciliation of movements in shareholders' funds

	2013 £m	2012 £m
Profit for the year	**299.5**	(92.1)
Dividends	**(159.1)**	(138.1)
	140.4	(230.2)
Share based payment	**10.5**	9.1
Shares issued	**20.8**	282.2
Net movement in shareholders' funds	**171.7**	61.1
Opening shareholders' funds	**829.5**	768.4
Closing shareholders' funds	**1,001.2**	829.5

14 Commitments and contingent liabilities

(a) Annual commitments under operating leases were as follows:

	2013		2012	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire:				
In 2 to 5 years inclusive	**0.8**	**0.2**	0.8	0.2

(b) The Company has overdraft and loan facilities of Group undertakings amounting to £425m (2012: £425m), of which £nil had been drawn down at 31 December 2013 (2012: £nil drawn down).

15 Borrowings

	2013 £m	2012 £m
Bonds	204.7	310.7
Repayments fall due as follows:		
Within 1 year:		
Bonds	–	95.0
	–	95.0
After more than 1 year:		
In more than 2 years but not more than 5 years	204.7	215.7
Total borrowings	204.7	310.7

The Company has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2005[2]				
Series B	0.525 above 6m LIBOR	GBP	25.0	28 September 2015
Total of sterling denominated bonds			25.0	
			US$m	
Issued 2006[1,2]				
Series B	5.88	US$	130.0	28 June 2016
Series B	5.81	US$	74.0	13 September 2016
Series C	5.77	US$	60.0	13 September 2016
Total of US$ denominated bonds			264.0	

1 The Company has entered into currency swaps for the US$ issues to achieve a floating rate of interest based on 6 month LIBOR. Further disclosure on the Company's use of hedges is included in note 26.
2 Subsequently, the Company has entered a series of fixed rate interest rate swaps to convert these issues from paying a floating rate based on 6 month LIBOR to fixed rates. See note 26 for further details of these fixed rate interest swaps.

In 2013 the Company repaid bonds which reached maturity. These were £50.0m 2005 Series A bonds, US$60.0m 2006 Series A bonds (GBP equivalent: £32.3m) and US$11.0m 2006 Series A bonds (GBP equivalent: £5.8m).

All series are unsecured.

16 Related party transactions

In the following, figures for purchases and sales are for transactions invoiced during the year inclusive of Value Added Tax where applicable. All transactions are undertaken at normal market prices.

During the year the Company sold goods/services in the normal course of business to Capita Gwent Consultancy Limited for £0.0m (2012: £0.1m). In addition, the Company purchased goods/services in the normal course of business for £0.0m (2012: £nil). At the balance sheet date the net amount receivable from Capita Gwent Consultancy Limited was £0.0m (2012: £nil).

During the year the Company sold goods/services in the normal course of business to Service Birmingham Limited for £0.5m (2012: £0.6m). In addition, the Company purchased goods/services in the normal course of business for £0.1m (2012: £0.1m). At the balance sheet date the net amount receivable from Service Birmingham Limited was £nil (2012: £0.1m).

During the year the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.1m (2012: £nil). In addition, the Company purchased goods/services in the normal course of business for £nil (2012: £nil). At the balance sheet date the net amount receivable from Entrust Support Services Limited was £nil (2012: £nil).

During the year the Company sold goods/services in the normal course of business to Axelos Limited for £0.1m (2012: £nil). In addition, the Company purchased goods/services in the normal course of business for £nil (2012: £nil). At the balance sheet date the net amount receivable from Axelos Limited was £nil (2012: £nil).

17 Pension costs

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £ 2.3m (2012: £1.9m).

18 Share based payment

The Company operates several share based payment plans and details of the schemes are disclosed in note 28 of the Group's consolidated financial statements on page 127.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2013 was £10.5m (2012: £9.1m), 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 £5.3m (2012: £3.9m).

Principal Group investments

Axelos Limited[1]
Provide continuous learning and development in respect of best management practices.

Capita Holdings Limited
Holding and investment company.

Capita Business Services Limited[1]
Providing an integrated range of business process and customer management services to clients in the UK and Ireland.

Capita Property and Infrastructure Limited[1]
Providing a comprehensive range of project management, telecommunications engineering and construction related consultancy services.

Capita Employee Benefits (Consulting) Limited[1]
Providing employee benefit advice, communication and administration services.

Capita Registrars Limited[1]
Share registration and employee share scheme administration services.

Capita Trust Company Limited[1]
Corporate trustees and providers of trust and administration services.

Capita Life & Pensions Services Limited
Administration and customer services for life and pensions operations.

Capita Life & Pensions Regulated Services Limited
Administration and customer services for life and pensions regulated operations.

Capita Resourcing Limited[1]
Employee recruitment services.

Capita IT Services Limited[1]
Designing, providing and managing networked computing and communication systems.

Capita Medical Reporting Limited[1]
Medical services administration provider.

Capita Employee Benefits Limited[1]
Providing actuarial, pension consultancy and administrative services.

Capita Customer Management Limited[1]
Providing business process outsourcing and customer management services.

Service Birmingham Limited[1]
Providing ICT and business transformation outsourcing services to the public sector.

Fish Administration Limited[1]
Providing the sale of insurance services.

Capita International Limited
Provider of administration related services to the business process outsourcing sector.

Capita Managed IT Solutions Limited[1]
Provider of IT management, cloud-based services, and IT infrastructure services.

Capita Secure Information Solutions Limited[1]
Provider of secure IT information solutions.

Entrust Support Services Limited[1]
Provider of educational support services.

Knowledgepool Group Limited[1]
Provider of managed learning services and consultancy.

ParkingEye Limited[1]
Provider of car park management services.

Capita IT Services (BSF) Limited[1]
Provider of educational ICT services.

Team 24 Limited[1]
Provider of medical services.

Tascor Services Limited[1]
Provider of business process outsourcing to the security and justice sector.

[1] Indirectly held

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. Registering for e-communications enables shareholders to:

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

Registering for e-communications is very straightforward. Go to www.capitashares.co.uk

Key dates for your diary

Annual General Meeting 12 May 2014

The AGM will be held at 11.00 am on Monday 12 May 2014 at Deutsche Bank, 1 Great Winchester Street, London EC2N 2DB. The Notice of Meeting and proxy card for the meeting are enclosed with this report.

Final dividend payment: 28 May 2014

Half-year results: 23 July 2014

Get in touch

Shareholder enquiries

We aim to communicate effectively with our shareholders, via our website www.capita.co.uk/investors. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual reports should contact Capita's investor relations team on 020 7799 1525 or email: corporate@capita.co.uk.

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Capita Asset Services, by email: shareholderenquiries@capita.co.uk or at the address below:

Capita Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: (UK) 0871 664 0300

(UK calls cost 10p per minute plus network extras, lines are open 8.30 am to 5.30 pm, Monday to Friday).

(Overseas) +44 20 8639 3399

Other helpful shareholder services

Share dealing

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

For further information on this service or to buy and sell Capita shares online go to: www.capitadeal.com or by telephone: 0871 664 0454 (UK calls cost 10p per minute plus network extras, lines are open 8.00 am to 4.30 pm, Monday to Friday).

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 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/investors or call Capita Asset Services on 0871 664 0381. (UK calls cost 10p per minute plus network extras, lines are open 9.00 am to 5.30 pm, Monday to Friday).

International dividend payment service

Capita Asset Services has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your bank account, or alternatively, we can send you a currency draft. For further information call Capita Asset Services on 0871 664 0385 (UK calls cost 10p per minute plus network extras, lines are open 9.00 am to 5.30 pm, Monday to Friday).

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