CAPITA

25 February 2010

THE CAPITA GROUP PLC

Preliminary Results for the year ended 31 December 2009

STRONG PERFORMANCE AND PROSPECTS

Financial Highlights

	Year ended 31 December 2009	Year ended 31 December 2008	**Change**
Turnover	£2,687m	£2,441m	**+10%**
Underlying operating profit*	£357.7m	£320.9m	**+11%**
Underlying profit before tax*	£325.1m	£277.2m	**+17%**
Underlying earnings per share*	38.75p	33.26p	**+17%**
Total dividend per share	16.8p	14.4p	**+17%**

** excludes intangible amortisation of £28.1m (2008: £18.6m), the non-cash impact of mark to market movement on financial instruments of £1.4m negative (2008: £32m negative), loss on disposal of business £7.5m and an estimate for costs of £30m relating to the suspension of 2 OEIC investment funds for which Capita Financial Managers is the authorised corporate director.*

Key points

- Steady organic growth. Major contract wins and renewals of £1bn (2008: £1.24bn).
- Bid pipeline stands at £3.7bn (Feb 2009: £3.1bn); increasingly active market.
- Broadened our operational capability: £177.5m spent on 12 acquisitions.
- Continued underlying operating margin progression: increased by 16 basis points to 13.31% (2008: 13.15%).
- Strong underlying free cash flow up by 28% to £280m (2008: £219m).
- 17% dividend increase, maintaining our dividend cover of 2.3 times.

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

"Capita delivered a strong performance in 2009. Organic growth was steady across the year with a number of new major contracts secured in the year and with businesses across the Group delivering robust results. Additional spend by existing clients was lower in 2009 but a focus on optimising our operational infrastructure and the growth of our offshore operation ensured that we continued to increase margins.

Capita is well placed to continue its growth and is enjoying a healthy flow of new business opportunities. Our pipeline of sales prospects, strong forward visibility of revenues from our long term contracts and consistent operational performance position us well for further progress in 2010 and thereafter."

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CAPITA

The Capita Group Plc

Preliminary Statement for the year ended 31 December 2009

Capita delivered a strong performance in 2009. Organic growth was steady with a number of new major contracts secured in the year and with businesses across the Group delivering robust results.

In the year ended 31 December 2009, turnover increased by 10% to £2,687m (2008: £2,441m). Underlying operating profit* rose by 11% to £357.7m (2008: £320.9m) and underlying profit before taxation* increased by 17% to £325.1m (2008: £277.2m). Underlying earnings per share* grew by 17% to 38.75p (2008: 33.26p). Underlying free cash flow** increased by 28% to £280m (2008: £219m).

We have increased our total dividend for the year by 17% to 16.8p (2008: 14.4p).

** excludes intangible amortisation of £28.1m (2008: £18.6m), the non-cash impact of mark to market movement on financial instruments of £1.4m negative (2008: £32m negative), loss on disposal of business of £7.5m and an estimate for costs of £30m relating to the suspension of 2 OEIC investment funds for which Capita Financial Managers is the authorised corporate director.*
*** underlying cash flow excludes an exceptional additional pension contribution to the Group Final Salary Pension Scheme of £40m.*

Building value for shareholders

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

- **Margin** - We continue to focus on generating a steadily improving operating margin. In the year, the underlying operating margin has increased by 16 basis points to 13.31% (2008:13.15%).

- **Cash flow** - The strength of our business model is reflected in our excellent cash flow, with £437m (2008: £392m) generated by operations in the period, representing an operating profit to cash conversion rate of 122% (2008: 122%). Our underlying free cash flow increased by 28% to £280m (2008: £219m).

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

  - **Acquisitions** - Acquisitions help us to enter new markets where we can grow organically, strengthen existing market positions and build economies of scale, or access a new customer base. In 2009, we spent £177.5m on 12 acquisitions. There is currently a good volume of opportunities valued at attractive levels and we expect this position to continue through 2010. We will continue to ensure counterparty risk is fully assessed and be disciplined when assessing opportunities.

  - **Share buybacks** - Opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. In 2009, the Group did not buy back any shares as we have focused our capital on the flow of attractive acquisition opportunities. We will however continue to buy back shares if and when opportunities arise. There are 617m shares in issue. The Group has authority to re-purchase up to 10% of its issued share capital and we plan to seek renewal of this authority at the Annual General Meeting.

  - **Regular dividends** - The Board is recommending a final dividend of 11.2p per ordinary share (2008: 9.6p), making a total of 16.8p (2008: 14.4p) for the year. This represents an increase of 17%. The final dividend will be payable on 24 May 2010 to shareholders on the register at the close of business on 16 April 2010. Including the proposed final dividend, Capita's total dividend will have grown at a compound annual rate of 25% over the 5 years to 31 December 2009. Dividend cover for 2009 remains at 2.31 times (2008: 2.31 times).

Including the proposed dividend, £929m will have been returned to shareholders in respect of the last 5 years - £367m in ordinary dividends, £155m in special dividends and £407m through share buybacks.

- **Capital expenditure** - We aim to contain capital expenditure at or below 4% of revenue. During the year, we met this objective with net capital expenditure at 2.5% (2008: 3.5%) of revenue.

- **Return on capital employed** - We focus on driving a steadily increasing return on capital. During 2009, the post tax return on average capital employed (including debt) has improved to 20.6% (2008: 20.3%). This compares to our post tax estimated weighted average cost of capital which is 7.9%.

Additional financial information

Businesses across the Group performed well in 2009. The majority of our businesses delivered good sales and operational performance, especially our businesses servicing the local authority and education markets. Less than 10% of our Group revenues are generated by businesses that are potentially vulnerable to a weaker economy and the majority of these delivered to our 2009 business plan expectations, particularly our property consultancy, resourcing and share registration businesses. Conversely, our collectives and investment trust administration business, Capita Financial Managers (CFM), which administers nearly 600 funds and has annual revenues of c. £50m, was adversely affected by the increased costs of IT and the sharply increasing obligations of regulatory compliance.

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

In addition, CFM has informed investors in the OEICs that it is undertaking a review to determine whether such investors have suffered any detriment and, if so, to what extent any of the parties involved should be responsible for compensating them. This is a complex exercise and it is taking longer than anticipated, but we are determined to ensure that the matter is concluded in a way that takes appropriate account of the results of the review and the interests of investors in the OEICs, but also recognises the interests of Capita's shareholders. The detailed work undertaken since March 2009 has resulted in significant costs. We have set aside estimated costs of £30m (both incurred and potentially to be incurred) in respect of resolving this matter. This figure has been disclosed separately from the Group's underlying profit in our accounts for the year ended 31 December 2009.

CFM predominately provides administration services to investment funds and, in some cases, additionally acts as ACD. In the light of the experience gained from the Arch cru situation, we have undertaken a strategic review of CFM and decided that the balance between risk and reward in some of the ACD business does not serve our shareholders well. Accordingly, we are now in active discussions to dispose of part of this business.

Pension payment – As reported in February 2009, following our latest tri-annual funding valuation, we decided to make an exceptional additional pension contribution of £50m into the Group Final Salary Pension Scheme. £10m was paid in December 2008 and the remaining £40m was paid in January 2009. At the year end, the deficit under International Accounting Standard (IAS) 19 was £31.9m.

Debt profile – We aim to maintain a conservative balance sheet with substantial headroom to take advantage of opportunities to add value to shareholders as they arise. Following repayment of £100m in June 2009, we have £579m of private placement debt which matures between 2012 and 2018. Alongside this we have raised a £200m bank term loan maturing in July 2011 and have an unused revolving credit facility of £245m maturing in December 2011.

Our marketplace

We remain the clear leader in the overall UK BPO market with 27.0%† market share (2008:25.5%). Independent analysts have estimated that the total 2009 market for BPO in the UK was £6.0bn, against market potential of £94.2bn a year†. The capacity for long term growth therefore remains substantial as organisations review their business models and acknowledge the benefits of outsourcing.

We remain focused on selecting opportunities where we believe we can meet clients' expectations and add value, fuelling controlled growth and achieving a reasonable return for the Group.

In 2009, our most active market was local government. We also saw increased activity in financial services and central government and ongoing interest from the life and pensions market. We have seen a steady flow of outsourcing opportunities across both public and private sectors in 2009. As a result, the sector split of revenues remained broadly in balance at 50% private/50% public. (2008: 52%/48%).

Public sector: Across a number of our divisions, we provide outsourcing and professional support services to both local authorities and central government. We have built particular expertise in education, transport and health – and have a growing interest in the defence sector. We expect fiscal pressure on public spending to heighten the focus on outsourcing in the public sector in 2010. Irrespective of which party wins the General Election, central government departments in particular will need to achieve significant cost efficiencies without compromising the availability or quality of frontline public services. A combination of reduced public sector revenues and increased demand for services is likely to add pressure on budgets both locally and centrally. With our solid track record of delivering public sector contracts, we are well placed to help organisations to introduce new, more sustainable and streamlined ways of working to meet public needs.

Private sector: The 3 main private sector markets we focus on are life and pensions, insurance and financial services. We also support an increasing number of organisations in other markets and we have a growing interest in the banking and utilities sectors. In the current economic climate, there is increased pressure on commercial organisations to drive down operational costs without compromising customer service or their competitiveness in their marketplace. As they strive to do this, and to bring new products to market faster, we expect them to consider the higher productivity and enhanced operational and advisory capabilities that an experienced outsourcing service provider can bring. Many of our private sector clients are also looking at the benefits that Capita can offer through a blended onshore/offshore service delivery model.

Generating profitable growth

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

Organic growth

We have a centrally managed major sales team, as well as sales teams within each of our businesses, focused upon securing contracts with both existing and new customers. Our markets continue to offer good opportunities and our new sales performance in 2009 was satisfactory. However, due to the prevailing economic conditions it was more difficult to secure additional revenues from existing clients.

Our major sales team pursues complex, long term contracts which bring together a wide range of the Group's skills and generate high quality, recurring revenues. Securing and renewing major contracts is an important component of our growth.

In 2009, we secured and extended 15 major contracts with a total value of £1.0bn (2008: 17 contracts totalling £1.24bn). These include:

- **AXA Sun Life:** Contract secured to administer 3.2 million life and pensions policies, worth £523m over 15 years. The contract started on 1 June with 1,150 employees in the UK transferring to Capita. We have already achieved step improvements in service as well as hitting our critical service level targets. In September, we transferred a further 550 people from AXA in India.

† Ovum 2009

- **Learning and Skills Council (LSC):** Following our appointment to take over interim responsibility for the administration of the Learner Support Programme in November 2008, we signed a contract in March 2009 with the LSC valued at £68m over 4 years until 2013, with an option to extend for a further 2 years. The contract, to administer and assess applications for a range of allowances to support learners including the Education Maintenance Allowance (EMA) and the Adult Learning Grant (ALG), is progressing well. We currently process and pay over 600,000 Learners per week, on behalf of 4,000 Learning Provider institutions, and deal with approximately 2 million calls per annum.

- **Office of National Statistics:** Our contract for the 2011 Census is well underway with the first rehearsal successfully completed in October. As part of our delivery model, we have implemented an innovative IVR solution for time and attendance as well as travel and expenses data capture for field operatives. The contract is worth £25m over 2 and a half years.

- **Department for Children, Schools and Families (DCSF):** The contract for the management of the National Strategies has been extended by 1 year from the end of March 2010, when the current 5 year contract is due to end. The DCSF has indicated that the minimum value of the 1 year contract extension will be £64m. The recently published Schools White Paper has signalled a new approach to school accountability and improvement support with greater focus on the development of school to school support and quality assured providers. As a result, the National Strategies' contract will not be re-tendered and will end on 31 March 2011. The National Strategies have played a key role in building local capacity and will continue to do so throughout the remaining period of the contract.

- **BBC Audience Services**: We were successful in being awarded a new contract, worth c. £45m over 9 years, to handle complaints, comments and enquiries via phone calls, emails, SMS and letters. We will also provide action lines for issue-related programming, audience management and ticketing, as well as daily feedback to the BBC from viewers and listeners about how audiences feel about BBC content.

- **Becta:** Our contract to administer and market the Home Access Grant on behalf of Becta is progressing well, including a controlled launch and take up of the scheme. We have developed interfaces with multiple equipment suppliers to process grant payments which will total £136m over the period of the contract. The contract is valued at £15.7m, commenced on 16 October 2009 and will run to June 2011.

- **NHS BSA:** In December, we signed a contract, worth £100m over 7 years, to administer the processing and payment of circa 40 million claims made annually by dentists for NHS dental treatment administered and to provide a managed IT service to support the Authority, its current portfolio of activities and future growth. The service, which is due to commence in July 2010, will be delivered by our Health and IT Services businesses.

8 contracts and renewals worth between £10m and £50m were secured with an aggregate value of £159m with Hart District Council, Havant Borough Council, Breckland District Council, Charnwood Borough Council, eircom, Threadneedle, NHS Employers and the Driving Standards Agency.

To date in 2010, 9 new contracts and extensions worth between £10m and £50m with an aggregate value of £195m have been secured. This includes a life and pensions contract with Aviva Life International in Ireland, a contract with AXA to provide administration services for Sainsbury's pet insurance offering, extensions of our DWP Records Management and Constructionline contracts and:

- **Building Schools for the Future (BSF):** A number of BSF contracts involving the provision of property consultancy and ICT for clients such as Wolverhampton City Council, worth £34m, and Rochdale Metropolitan Borough Council.

- **Nottinghamshire County Council:** An arrangement to provide networking, applications and services to the Council, worth £30m, secured by our newly acquired Synetrix business.

Bid pipeline: Alongside these contract wins, our bid pipeline has been replenished and reflects the quality of business opportunities across our markets. The bid pipeline currently stands at £3.7bn (Feb 2009: £3.1bn) and only includes bid situations in which we are shortlisted as 1 of 4 or fewer competitors and caps our largest bids at £500m. Behind this is an active prospect list of opportunities which are yet to reach a shortlist stage.

Contract renewals: We have no material rebids of our contracts (defined as having annual revenue in excess of 1% of 2009 turnover) in 2010 and 2011, 2 rebids in 2012 and none in the following 2 years.

Stimulating growth through acquisition

A key element of our growth is the acquisition of small to medium sized companies which widen our skills and knowledge, extend our presence in existing marketplaces or provide a foothold in a new market. We have substantial experience of integrating acquired businesses and achieving synergies with our existing operations.

In 2009, we completed 12 acquisitions for a total consideration of £177.5m, including:

- **CHKS and NHS Membership Services:** CHKS Limited, a healthcare intelligence business, and NHS Membership Services, which provides membership services and engagement programmes for over 50 NHS foundation trusts, add further strength to our position in the health market. The 2 businesses were acquired for an aggregate consideration of £13.6m.

- **Hero Insurance Services:** A personal lines broker primarily offering insurance for cars and motorbikes, acquired in March for £15m. Hero has been integrated with our existing Insurance Distribution businesses (BDML, Lancaster Insurance and Thornside) and is already achieving significant efficiency improvements through cost management and driving through synergy savings.

- **Capmark Services Europe:** Acquired for £10m in June, Capmark provides administration services for commercial mortgage backed securities, commercial mortgages, commercial property loans and asset managers from offices based in the UK, Ireland and Germany.

- **Carillion IT Services Ltd ("CITS"):** An IT services business, acquired for £36m in June, which offers outsourcing, managed services and network infrastructure solutions to external clients. The acquisition enhances and expands Capita's position in the IT services market, increasing our scale, customer base and reach across the UK. There will be significant operational and cost synergies by bringing together CITS and Capita IT Services.

- **Synetrix (Holdings) Ltd:** A provider of ICT application and communications solutions to both public and private sector organisations and specialises in the design, development, integration and deployment of converged networks, hosted application solutions, managed security solutions and software platforms. This acquisition, made in December for £75m, further strengthens our position in the IT services market.

In 2010, our pipeline of potential acquisitions is healthy. To date, we have acquired 2 businesses for a total consideration of £16.8m:

- **Inventures**, a leading healthcare property consultancy for £6.8m. With 4 UK offices and more than 100 consultants, Inventures provides programme and project management, property and estate management, healthcare planning and facilities management advice to the NHS and other public sector bodies across the UK.

- **NB Real Estate Ltd**, for £10m on a cash-free, debt-free basis, plus a contingent deferred consideration of up to £10m payable on the achievement of certain performance targets. The continuing pressure on public service spending and the wider UK economy will drive more organisations to consider more innovative and efficient ways to manage their property assets and the acquisition of NB Real Estate positions Capita strongly to fulfil this demand.

Optimising operational efficiency

We have built up an extensive operational infrastructure and a depth of capabilities which enable us to fully support our clients, provide flexible operating models and share economies of scale. Wherever possible, we will migrate and integrate systems, share resources and rationalise premises to optimise our infrastructure while maintaining and enhancing services. In 2009, we have taken significant steps forward in this ongoing process, particularly across our Life & Pensions business.

Our business centres, where we run a broad range of shared services to provide cost efficiencies to customers and a higher level of service quality, form a central part of our service delivery infrastructure. At the end of 2009, we had 60 business centres onshore in the UK, nearshore in Ireland and the Channel Islands, and offshore in India. Our infrastructure allows us to offer clients an onshore/offshore delivery model structured to meet their individual needs, delivering maximum service flexibility, quality and cost effectiveness.

We established our offshore operations in India in 2003 and they play an increasingly important role in our business and long term growth strategy. Capita India is fully integrated into the Group and operates like any other Capita business with the same values, technical infrastructure and operating model. It continues to develop strongly both in scale and scope of services and is a compelling proposition when offered as part of many of our bids. It also plays an increasing role in supporting Group businesses and Group support functions. We now have 3 sites in Mumbai, 1 site in Pune and a new office in Bangalore. These sites are specialist centres, delivering services to multiple clients or providing multiple services to a single client. At the end of 2009, our Indian operations represented approximately 10% of our overall headcount and delivered significant growth in profits.

Group Board

After 9 years with Capita, Eric Walters decided to step down as Chairman with effect from 1 January 2010. We thank Eric for his considerable contribution and wish him well as he pursues other interests. We are delighted that Martin Bolland, who has been an active and valuable Non-Executive Director since March 2008, has assumed the role of Chairman. We also announced last year that Paddy Doyle would be moving to a part-time Executive Director role. He has now decided to reduce his business interests further and will continue on the Board as a Non-Executive Director from 1 March 2010. We welcome Paddy's continued valuable contribution to the Group.

The Board has considered the number of Independent Non-Executive Directors, specifically with relevant financial experience, and will be recruiting to add further Non-Executives to the Board. Whilst this process is taking place, Martin will continue as Chairman of the Audit Committee and Senior Independent Director until an appropriate replacement is appointed.

Valuing our people

Capita owes its success to its people and the Board would like to take this opportunity to thank all the talented employees across our businesses who have played a key role in Capita's consistent growth. Against a backdrop of difficult market conditions during 2009, the effort made by our 36,800 employees has been outstanding and has contributed to another successful year for the Group. Whether joining us through direct recruitment, contracts or acquisitions, their hard work, commitment and enthusiasm play a vital role in helping us to meet client expectations and in sustaining our growth.

Future prospects

Capita is well placed to continue its growth and is experiencing a healthy flow of new business opportunities. Our pipeline of sales prospects, strong forward visibility of revenues from our long term contracts and consistent operational performance position us well for further strong progress in 2010 and thereafter.

-Ends-

Preliminary Statement

Consolidated income statement

for the year ended 31 December 2009

	Notes	Underlying £m	Non-underlying £m	2009 Total £m	Underlying £m	Non-underlying £m	2008 Total £m
Continuing operations:							
Revenue	1	**2,686.8**	**-**	**2,686.8**	2,441.4	-	2,441.4
Cost of sales		**1,937.0**	**-**	**1,937.0**	1,757.8	-	1,757.8
Gross Profit		**749.8**	**-**	**749.8**	683.6	-	683.6
Administrative expenses	2	**392.1**	**58.1**	**450.2**	362.7	18.6	381.3
Operating profit	1	**357.7**	**(58.1)**	**299.6**	320.9	(18.6)	302.3
Net finance costs	3	**(32.8)**	**(1.4)**	**(34.2)**	(43.5)	(32.0)	(75.5)
Investment gain/(loss)		**0.2**	**-**	**0.2**	(0.2)	-	(0.2)
Loss on business disposal	4	**-**	**(7.5)**	**(7.5)**	-	-	-
Profit before tax		**325.1**	**(67.0)**	**258.1**	277.2	(50.6)	226.6
Income tax expense		**(87.1)**	**17.9**	**(69.2)**	(74.9)	14.1	(60.8)
Profit for the year		**238.0**	**(49.1)**	**188.9**	202.3	(36.5)	165.8
Attributable to:							
Equity holders of the parent		**238.0**	**(49.1)**	**188.9**	202.3	(36.5)	165.8
Earnings per share	5						
- basic		**38.75p**	**(7.99)p**	**30.76p**	33.26p	(6.00)p	27.26p
- diluted		**38.42p**	**(7.92)p**	**30.50p**	32.96p	(5.95)p	27.01p

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	2009 £m	2009 £m	2008 £m	2008 £m
Profit for the year		**188.9**		165.8
Other comprehensive income/(expense):				
Actuarial losses on defined benefit pension schemes	**(58.2)**		(48.1)	
Income tax effect	**16.3**		13.5	
		(41.9)		(34.6)
Exchange differences on translation of foreign operations		**(2.3)**		5.9
Losses/(gains) on cash flow hedges arising during the year	**(10.8)**		20.9	
Reclassification adjustments for gains included in the income statement	**(4.1)**		(0.8)	
Income tax effect	**4.2**		(5.6)	
		(10.7)		14.5
Other comprehensive expense for the year net of tax		**(54.9)**		(14.2)
Total comprehensive income for the year net of tax		**134.0**		151.6
Attributable to:				
Equity holders of the parent		**134.0**		151.6

Consolidated balance sheet

at 31 December 2009

	Notes	2009 £m	2008 £m
Non-current assets			
Property, plant and equipment		**256.6**	238.3
Intangible assets		**1,107.0**	907.0
Financial assets		**186.3**	332.4
Trade and other receivables		**20.3**	8.1
Deferred taxation		**-**	3.0
		1,570.2	1,488.8
Current assets			
Financial assets		**2.0**	5.2
Trade and other receivables		**618.4**	583.6
Cash		**181.5**	86.7
		801.9	675.5
Total assets		**2,372.1**	2,164.3
Current liabilities			
Trade and other payables		**794.5**	690.4
Financial liabilities		**19.8**	116.5
Provisions	7	**27.6**	2.3
Income tax payable		**37.5**	40.4
		879.4	849.6
Non-current liabilities			
Trade and other payables		**9.0**	9.6
Financial liabilities		**951.3**	882.7
Deferred taxation		**13.9**	-
Provisions	7	**20.4**	1.0
Employee benefits		**31.9**	24.5
		1,026.5	917.8
Total liabilities		**1,905.9**	1,767.4
Net assets		**466.2**	396.9
Capital and reserves			
Issued share capital		**12.9**	12.8
Share premium		**435.2**	410.4
Employee Benefit Trust		**(0.2)**	(0.2)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation		**4.3**	6.6
Net unrealised gains reserve		**7.8**	18.5
Retained earnings		**4.4**	(53.0)
Equity shareholders' funds		**466.2**	396.9

Included in aggregate financial liabilities is an amount of £720.5m (2008: £953.1m) 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 £139.9m included in financial assets and £0.6m included in financial liabilities (2008: £274.3m included in financial assets). Consequently, this gives an effective liability of £581.2m (2008: £678.8m).

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital	Share premium	Employee Benefit Trust shares	Capital redemption reserve	Retained earnings	Foreign currency translation reserve	Net unrealised gains reserve	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2008	12.6	374.9	-	1.8	(62.2)	0.7	4.0	331.8
Profit for the year	-	-	-	-	165.8	-	-	165.8
Other comprehensive expense	-	-	-	-	(34.6)	5.9	14.5	(14.2)
Total comprehensive income for the year	-	-	-	-	131.2	5.9	14.5	151.6
Share based payment	-	-	-	-	9.2	-	-	9.2
Income tax deduction on exercise of stock options in excess of share based payments	-	-	-	-	17.6	-	-	17.6
Deferred income tax relating to share based payments	-	-	-	-	(2.2)	-	-	(2.2)
Share transaction costs	-	-	-	-	(0.4)	-	-	(0.4)
Shares issued	0.2	35.5		-	-	-	-	35.7
Employee benefit trust shares purchased	-	-	(0.2)	-	(68.2)	-	-	(68.4)
Equity dividends paid	-	-	-	-	(78.0)	-	-	(78.0)
At 1 January 2009	**12.8**	**410.4**	**(0.2)**	**1.8**	**(53.0)**	**6.6**	**18.5**	**396.9**
Profit for the year	**-**	**-**	**-**	**-**	**188.9**	**-**	**-**	**188.9**
Other comprehensive expense	**-**	**-**	**-**	**-**	**(41.9)**	**(2.3)**	**(10.7)**	**(54.9)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**147.0**	**(2.3)**	**(10.7)**	**134.0**
Share based payment	**-**	**-**	**-**	**-**	**9.8**	**-**	**-**	**9.8**
Income tax deduction on exercise of stock options in excess of share based payments	**-**	**-**	**-**	**-**	**6.0**	**-**	**-**	**6.0**
Deferred income tax relating to share based payments	**-**	**-**	**-**	**-**	**(12.2)**	**-**	**-**	**(12.2)**
Shares issued	**0.1**	**24.8**	**-**	**-**	**-**	**-**	**-**	**24.9**
Equity dividends paid	**-**	**-**	**-**	**-**	**(93.2)**	**-**	**-**	**(93.2)**
At 31 December 2009	**12.9**	**435.2**	**(0.2)**	**1.8**	**4.4**	**4.3**	**7.8**	**466.2**

Consolidated cash flow statement

for the year ended 31 December 2009

	2009 £m	2008 £m
Cash flows from operating activities		
Operating profit on continuing activities before interest and taxation	**299.6**	302.3
Depreciation	**54.4**	50.0
Amortisation of other intangible assets (treated as depreciation)	**1.2**	1.5
Amortisation of intangible assets created on acquisition	**28.1**	18.6
Share based payment expense	**9.8**	9.2
Pension charge	**21.2**	19.3
Pension contributions before exceptional additional contribution	**(32.0)**	(28.5)
Loss on sale of property, plant and equipment	**1.1**	1.1
Movement in provisions	**25.5**	(2.2)
Movement in provisions due to reclassification from payables during the year	**17.2**	-
Decrease/(increase) in receivables	**18.6**	(90.7)
(Decrease)/increase in payables	**(8.0)**	111.4
Cash generated from operations before exceptional additional pension contribution	**436.7**	392.0
Income tax paid	**(58.3)**	(48.6)
Exceptional additional pension contribution	**(40.0)**	(10.0)
Net interest paid	**(31.1)**	(38.4)
Cash generated from operations after income tax, interest and exceptional additional pension contribution	**307.3**	295.0
Net cash used in investing activities		
Purchase of property, plant and equipment	**(68.4)**	(86.4)
Proceeds from sale of property, plant and equipment	**0.1**	0.3
Purchase of intangible fixed assets	**-**	-
Acquisition of subsidiary undertakings and businesses	**(197.1)**	(188.4)
Cash acquired with subsidiary undertakings	**24.2**	8.9
Disposal of financial assets	**1.6**	23.1
Purchase of financial assets	**(0.4)**	-
Investment loan	**(0.6)**	(6.2)
Proceeds on business disposal (net of cash sold)	**8.0**	-
Return on investment in Joint Venture	**0.4**	0.1
	(232.2)	(248.6)
Net cash from financing activities		
Issue of ordinary share capital	**24.9**	35.7
Share buybacks	**-**	(68.4)
Share transaction costs	**-**	(0.4)
Dividends paid	**(93.2)**	(78.0)
Capital element of finance lease rental payments	**-**	(0.2)
Instalment debtor movement	**(8.1)**	-
Asset based securitised financing	**6.7**	0.7
Repayment of loan notes and long term debt	**(108.0)**	(3.3)
Proceeds on issue of debt	**200.0**	200.2
Financing arrangement costs	**(2.6)**	(0.7)
	19.7	85.6
Net increase in cash and cash equivalents	**94.8**	132.0
Cash and cash equivalents at the beginning of the period	**86.7**	(45.3)
Cash and cash equivalents at 31 December	**181.5**	86.7
Cash and cash equivalents comprise:		
Cash at bank and in hand	**181.5**	86.7
Total	**181.5**	86.7

Notes to the preliminary statement
for the year ended 31 December 2009

1. 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.
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 and result for the Group's business segments for the years 2009 and 2008.
All operations in 2009 are continuing.

Year Ended 31 December 2009

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

Year Ended 31 December 2008

	HR Solutions	Property Consultancy	Insurance Services	Investor Services	Integrated Services	ICT, Health & Business Services	Life & Pensions	Professional Services	Total
Underlying segment revenue	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total segment revenue	278.5	284.2	263.6	173.9	344.7	505.3	479.6	396.5	2,726.3
Inter-segment revenue	(20.3)	(22.0)	(17.4)	-	(5.2)	(123.1)	(25.6)	(71.3)	(284.9)
Third party revenue	258.2	262.2	246.2	173.9	339.5	382.2	454.0	325.2	2,441.4
Underlying segment result									
Result after depreciation	25.3	24.0	32.7	40.3	56.7	37.8	54.7	58.6	330.1
Share based payment	(1.1)	(1.2)	(1.6)	(0.7)	(2.3)	(0.7)	(0.8)	(0.8)	(9.2)
	24.2	22.8	31.1	39.6	54.4	37.1	53.9	57.8	320.9
Non-underlying									
Intangible amortisation	(0.2)	(1.4)	(3.7)	(3.7)	-	(2.4)	(3.8)	(3.4)	(18.6)
	24.0	21.4	27.4	35.9	54.4	34.7	50.1	54.4	302.3
Net finance costs (before callable swaps)									(43.5)
Callable swaps									(32.0)
Investment loss									(0.2)
Profit before tax									226.6
Corporation taxation									(60.8)
Profit after tax									165.8

2. Administrative expenses

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

	2009	2008
	£m	£m
Intangible amortisation	**28.1**	18.6
Arch cru costs	**30.0**	-
Total	**58.1**	18.6

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

In addition, CFM has informed investors in the OEICs that it is undertaking a review to determine whether such investors have suffered any detriment and, if so, to what extent any of the parties involved should be responsible for compensating them. This is a complex exercise and it is taking longer than anticipated, but we are determined to ensure that the matter is concluded in a way that takes appropriate account of the results of the review and the interests of investors in the OEICs, but also recognises the interests of Capita's shareholders. The detailed work undertaken since March 2009 has resulted in significant costs. We have set aside estimated costs of £30m (both incurred and potentially to be incurred) in respect of resolving this matter. This figure has been disclosed separately from the Group's underlying profit in our accounts for the year ended 31 December 2009. It is expected that an outcome will be reached in 2010.

CFM predominately provides administration services to investment funds and, in some cases, additionally acts as ACD. In the light of the experience gained from the Arch cru situation, we have undertaken a strategic review of CFM and decided that the balance between risk and reward in some of the ACD business does not serve our shareholders well. Accordingly, we are now in active discussions to dispose of part of this business.

3. Net finance costs

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

	2009	2008
	£m	£m
Callable swaps - mark to market	**(1.1)**	32.0
Mark to market movement on currency swaps*	**2.5**	-
	1.4	32.0

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

4. Loss on business disposal

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

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

5. Earnings per share

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

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

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

	2009	2008
	£m	£m
Net profit attributable to ordinary equity holders of the parent from operations	**188.9**	165.8

	2009 Number million	2008 Number million
Weighted average number of ordinary shares (excluding trust shares) for basic earnings per share	**614.2**	608.3
Dilutive potential ordinary shares:		
Employee share options	**5.2**	5.5
Weighted average number of ordinary shares (excluding trust shares) adjusted for the effect of dilution	**619.4**	613.8

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

The following additional earnings per share figures are calculated based on underlying earnings attributable to ordinary equity holders of the parent of £238.0m (2008: £202.3m) and, after underlying costs, earnings £188.9 (2008: £165.8m). They are included as they provide a better understanding of the underlying trading performance of the Group.

		2009	2008
		p	p
Basic earnings per share	– underlying	38.75	33.26
	– after non-underlying	30.76	27.26
Diluted earnings per share	– underlying	38.42	32.96
	– after non-underlying	30.50	27.01

6. Dividends paid and proposed

	2009	2008
	£m	£m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2008 paid: 9.6p per share (2007: 8.0p per share)	58.8	48.8
Interim for 2009 paid: 5.6p per share (2008: 4.8p per share)	34.4	29.2
	93.2	78.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2009: 11.2p per share (2008: 9.6p per share)	69.1	58.6

7. Provisions

	Insurance provision	Property provision	Arch cru	Other	Total
	£m	£m	£m	£m	£m
At 1 January 2009	**-**	**3.3**	**-**	**-**	**3.3**
Transfer from accruals in the year	**-**	**-**	**-**	**3.0**	**3.0**
Transfer from other payables in the year	**14.2**	**-**	**-**	**-**	**14.2**
Utilisation	**-**	**(0.6)**	**-**	**-**	**(0.6)**
Additional provisions in the year	**0.8**	**2.4**	**20.0**	**2.6**	**25.8**
Provisions acquired	**-**	**2.2**	**-**	**-**	**2.2**
Unwinding of interest on discounted provisions	**-**	**0.1**	**-**	**-**	**0.1**
At 31 December 2009	**15.0**	**7.4**	**20.0**	**5.6**	**48.0**

Certain liabilities previously held within accruals and other payables have been reclassified as provisions as it is considered that the classification is more appropriate given the nature of the balances.

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

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

Arch cru costs - see note 2.

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

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

The aggregate bond fair value above of £720.5m (2008: £953.1m) (included in Financial liabilities) includes the GBP value of the US$ denominated bonds at 31 December 2009. 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 £139.3m (2008: £274.3m), is included in Financial assets and Financial Liabilities.

†The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £581.2m (2008: £678.8m).

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

	Net Debt at 1 January 2008 £m	Acquisitions in 2008 (exc. cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2008 £m
Cash and cash equivalents	0.8	-	85.9	-	86.7
Overdrafts	(46.1)	-	46.1	-	-
Cash	(45.3)	-	132.0	-	86.7
Loan notes	(1.7)	-	3.3	(5.3)	(3.7)
Bonds †	(461.1)	-	(199.5)	(292.5)	(953.1)
Currency swaps in relation to US$ denominated bonds †	(18.1)	-	-	287.7	269.6
Interest rate swaps in relation to GBP denominated bonds †	0.1	-	-	4.6	4.7
Finance leases	(0.2)	-	0.2	-	-
Sub-total net debt	(526.3)	-	(64.0)	(5.5)	(595.8)
Asset based securitised finance*	(9.7)	-	(0.7)	-	(10.4)
Callable swaps	-	-	-	(32.0)	(32.0)
	(536.0)	-	(64.7)	(37.5)	(638.2)

9. Preliminary announcement

The preliminary announcement is prepared in accordance with International Financial Reporting Standards as adopted by the European Union. A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 24th February 2010. The announcement represents non-statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2009, upon which an unqualified audit opinion has been given and which did not contain a statement under Section 498 (2) or 498 (3) of the Companies Act 2006, will be sent to the Registrar of Companies.

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

It is intended that the Annual Report and Accounts will be posted to shareholders on 8 April 2010. It will also be available to members of the public at the registered office and on the Company's corporate website www.capita.co.uk from that date.