CAPITA

23 July 2014

Half year results for the 6 months to 30 June 2014

Good financial performance and sales activity

Financial highlights	Underlying 2014[1]	Underlying 2013[2]	Change	Reported 2014
Revenue	**£2,071.0m**	£1,818.8m	**+13.9%**	**£2,071.0m**
Operating profit	**£260.2m**	£226.8m	**+14.7%**	**£182.4m**
Profit before tax	**£238.0m**	£205.2m	**+16.0%**	**£152.3m**
Earnings per share	**28.88p**	25.82p	**+11.9%**	**18.60p**
Interim dividend per share	**9.6p**	8.7p	**+10.3%**	**9.6p**

Highlights

Delivering profitable growth

- £1.3bn of major contract wins secured in H1 2014 including:
  - £400m strategic partnership contract with the Defence Infrastructure Organisation (DIO)
  - £325m framework contract for Scottish Wide Area Network (SWAN)
  - £145m congestion charging and traffic enforcement schemes contract for Transport for London (TfL)
  - £93.5m online customer management contract with John Lewis
- Major contract win rate above 2 in 3
- Organic revenue growth of 11% (H1 2013: 3%); full year organic revenue growth expectation of at least 8%, net of attrition
- Bid pipeline replenished to a record £5.7bn (Feb 2014: £5.5bn); strong platform for 2015/16 growth
- Highest ever level of prospects behind bid pipeline, with opportunities across our diverse markets
- Active acquisition pipeline; £240m invested to date on 10 businesses, expanding capabilities and market reach to fuel future organic growth

Good financial performance

- Revenue up 13.9% to £2.1bn (H1 2013: £1.8bn[2])
- Underlying profit before tax[1] up 16.0% to £238.0m (H1 2013: £205.2m[2])
- Underlying operating margin[1] of 12.6% (H1 2013: 12.5%[2])
- Operating cash flow up 21.6% to £291m[3] (H1 2013: £239m); 112% cash conversion (H1 2013: 105%)
- Gearing at 2.3 times net debt to EBITDA (H1 2013: 2.2 times)

Andy Parker, Chief Executive of Capita plc, commented:

"I am pleased to report good financial results for the first 6 months of the year, demonstrating the strength of Capita's sales offering and operational delivery and the health of the UK customer and business process management market. Our breadth of capability across a diversified and growing market base enables us to move flexibly across sectors and to maintain a high level of selectivity regarding the opportunities that we pursue. We have had an excellent sales period securing £1.3bn of contracts and we are continuing to see a high level of activity across our markets, particularly in the private sector, providing a strong future platform for growth.

As a consequence of our sales and acquisition performance in 2013 and to date in 2014, we have a high level of revenue visibility for 2014. This, together with the strength of our bid and acquisition pipelines, gives us confidence in our full year performance and provides a good platform for growth in 2015 and beyond."

1 *Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, impairments, non-cash impact of mark-to-market finance costs.*

2 *Includes businesses exited in H2 2013.*

3 *Excludes closure costs of businesses exited in H2 2013 and Arch Cru costs.*

Analyst presentation

Andy Parker, Chief Executive of Capita plc, will host an analyst presentation and conference call in London at 8.30am UK time today.

There will be a conference call and live webcast of the full event. Details can be found at www.capita.co.uk/investors.

(Please dial into the call in time to allow for registration)

8.30am conference call details below:

Dial-in number: +44 20 3059 8125

Replay: A replay of the conference call will be available for 7 days by dialling +44 121 260 4861 (access code is 9825457#).

For further information:

Capita plc **Andy Parker, Chief Executive** **Shona Nichols, Corporate Communications Director**	**Tel: 020 7799 1525**
Capita Press Office	**Tel: 020 7654 2152 or** **020 7654 2399 out of hours**
FTI Consulting **Andrew Lorenz**	**Tel: 020 7269 7291**

About Capita

Capita plc is the UK's leading provider of customer and business process management (BPM) and integrated professional support service solutions. With 64,000 people at more than 350 sites, including 73 business centres across the UK, Europe, India and South Africa, the Group uses its expertise, infrastructure and scale benefits to transform its clients' services, driving down costs and adding value. Capita is quoted on the London Stock Exchange (CPI.L), and is a constituent of the FTSE 100 with 2013 revenue of £3.9bn. Further information on Capita plc can be found at: www.capita.co.uk

CAPITA

Capita plc

Results for the 6 months to 30 June 2014

Overview

Capita is today reporting good financial results for the first half of 2014 underpinned by strong sales and operational performance.

Financial results for the first 6 months of the year include revenue increasing by 13.9% to £2.1bn (H1 2013: £1.8bn[2]), underlying operating profit[1] up 14.7% to £260.2m (H1 2013: £226.8m[2]) and underlying profit before taxation[1] increasing by 16.0% to £238.0m (H1 2013: £205.2m[2]). Underlying earnings per share[1] grew by 12% to 28.9p (H1 2013: 25.8p[2]) and we have increased our dividend for the half year by 10.3% to 9.6p per share (H1 2013: 8.7p).

To date this year, we have secured £1.3bn of major contracts (H1 2013: £2.0bn, which included our largest ever contract with O2 of £1.2bn), comprising 90% new business and 10% renewed contracts. As a result of strong sales performance in 2013 and to date in 2014, we have generated strong organic growth in H1 2014 of 11% (H1 2013: 3%). We have also swiftly replenished the bid pipeline to £5.7bn (February 2014: £5.5bn), reflecting strong sales momentum across our 11 private and public sector markets. In addition to our established sectors, we continue to see a particularly high level of interest in a number of our newer growth areas, including justice and emergency services and across the telecoms, retail, utilities and financial services sectors.

Our divisions are trading well with particularly strong performance in our Workplace Services and Customer Management businesses. Following the management changes introduced last year, together with the more positive macroeconomic environment, our Property & Infrastructure and IT businesses are reporting improved sales and trading performance.

We retain our position at the forefront of the customer and business process management market by continually evolving our capability and identifying changes in market dynamics which create a compelling business case for outsourcing. The acquisition of small to medium sized businesses extend our capabilities and market reach, enhancing our value creating propositions, facilitating entry into new target sectors and thereby fuelling future organic growth. To date in 2014, we have invested £240m in acquiring 10 businesses. This has included establishing a footprint in a new sector for Capita through the acquisition of a mortgage processing business. We have also extended our existing customer management offering into a new geographic region through acquiring a niche customer management business in Germany to support our current and new clients' needs in Europe.

Financial update

Revenue – In the half year 2014, revenue increased by 13.9% to £2,071m (H1 2013: £1,819m[2]). This comprised 11% organic growth (net of attrition), 3% from acquisitions completed in 2013 and 1% to date in 2014, less 1% from businesses exited in H2 2013. We now operate across 11 diversified markets with revenue derived 51% private and 49% public sector.

Operating profit and margin – In H1 2014, the Group's underlying operating margin[1] was 12.6% (H1 2013: 12.5%[2]). The increase in margin in the first half is due to a combination of factors including the improvement in our Property & Infrastructure and IT Services businesses and the disposal of the underperforming insurance businesses in the second half of 2013. These were partly offset by the expected start up costs on some key major contracts and the ending of the Disclosure and Barring contract in March 2014.

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[1] *Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, impairments, non-cash impact of mark-to-market finance costs.*

[2] *Includes businesses exited in H2 2013.*

Our large scale infrastructure, lean corporate overhead, the high level of selectivity we maintain regarding bid opportunities and the value creating nature of our services enables us to retain double digit Group operating margins while providing competitive pricing for clients. We remain confident that underlying full year Group operating margins will be maintained in the range of 12.5% to 13.5% for the forseeable future.

Dividend – The Board has declared an interim dividend of 9.6p per ordinary share (H1 2013: 8.7p) representing an increase of 10.3%. The interim dividend will be payable on 7 October 2014 to shareholders on the register at the close of business on 29 August 2014.

Cash flow – In H1 2014, £291m[3] (H1 2013: £239m) was generated by operations representing an operating profit[1] to cash conversion ratio[3] of 112% (H1 2013: 105%). This high conversion rate reflects the Group's focus on cash generation and working capital management which is firmly embedded through all our divisions and business units. Based on current circumstances, we are comfortable that we can continue to achieve a medium to long term annual cash conversion ratio at or above 100%.

Underlying free cash flow, defined as underlying operating cash flow[1], less capital expenditure, interest and taxation for the half year was £170m (H1 2013: £161m).

Capital expenditure – We aim to contain capital expenditure at or below 4% of revenue. In H1 2014, we met this objective, with net capex at 2.8% of revenue (H1 2013: 2.6%). There are currently no indications of significant capex increases in our business forecasts or bid pipeline.

Return on capital employed – We focus on driving a healthy return on capital. Over the last 12 months to 30 June 2014, our post-tax return on average capital employed was 15.4%[1] (12 months to 30 June 2013: 15.1%[2]). This compares to our estimated post-tax WACC which is 7.7%.

To further align management interests with those of our shareholders, earlier this year we introduced ROCE targets to the incentive schemes of our Board Directors and our Executive Management Team, alongside the existing EPS targets. With the key driver of ROCE being organic profit growth and sound capital and cashflow management, we plan to include this measure in all of the Group's long term employee share incentive schemes.

Debt profile – As at 30 June 2014, we have £1,133m of private placement bond debt of which only £11m matures in 2014, £97m in 2015 and the remainder gradually maturing to 2021. In addition, we have £300m of bank debt of which £200m matures in July 2015 and a £425m revolving credit facility maturing in December 2015. In total, 52% of our debt is subject to fixed interest rates and 48% is subject to floating rates.

We expect to keep the ratio of net debt to EBITDA in the range of 2 to 2.5 over the long term and we would be unlikely to incur borrowings which would reduce interest cover below 7 times. At 30 June 2014, our annualised net debt to EBITDA ratio was 2.3 (H1 2013: 2.2[2]) with annualised interest cover at 13 times (H1 2013: 11 times).

Delivering profitable growth

We generate profitable growth by winning major contracts from new and existing customers and through acquiring businesses that broaden our capability and market reach, enhancing our sales propositions and creating future organic growth.

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[1] *Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, impairments, non-cash impact of mark-to-market finance costs.*

[2] *Includes businesses exited in H2 2013.*

[3] *Excludes closure costs of businesses exited in H2 2013 and Arch Cru costs.*

As demonstrated by our recent sales performance and the health of our bid pipeline, we are currently experiencing a high level of activity, both in our central major sales team, which targets contracts over £50m and in our divisional sales teams. Opportunities sitting behind our bid pipeline across our diverse markets are at their highest ever level.

Major contracts: We have made a good start to the year securing 12 major contracts with an aggregate value of £1.3bn in the first 6 months (H1 2013: 6 contracts totalling £2.0bn, which included our largest ever contract with O2 of £1.2bn). Our major sales win rate in this period was above 2 in 3. This includes:

- **BAE** - signed a strategic partnership contract with BAE Systems Maritime - Submarines to transform the existing method of IT service delivery for its submarine building business in a contract expected to be worth between £60m and £70m over the next five years. We will deliver an enhanced IT service model across the submarine building business which will be aligned with the wider BAE Systems group IT framework. Capita will develop a strategic partnership capable of delivering innovation alongside a robust and evolving IT management service to meet the changing needs of BAE Systems Maritime - Submarines.

- **John Lewis** - selected by John Lewis to provide its online contact centre. Under the agreement, which is worth £93.5m over 5 years, Capita will support John Lewis' online growth strategy and deliver a digital service, built around John Lewis' customers, that integrates with the full range of customer contact channels. Capita will apply the latest technology and service design methods to deliver an enhanced experience to John Lewis' customers and make it even easier for them to engage with the brand.

- **Ministry of Defence (MOD)** - selected to be the Strategic Business Partner for the Defence Infrastructure Organisation (DIO). Capita will lead a partnership comprising two integrated sub-contractors, URS and PA Consulting. The 10-year contract could be worth around £400m to Capita. The partnership will lead the management and transformation of the UK's national and international defence infrastructure. It will help to unlock the knowledge, skills and resources that already exist within the DIO while adding capability to tackle the significant cost-saving targets currently facing the MOD.

- **Scottish Wide Area Network (SWAN)** - signed a framework contract to deliver SWAN, a single public services network for the use of all public service organisations within Scotland. The contract value for SWAN is up to £325m over 9 years. More than 4,600 sites will be connected to the initial network including schools, hospitals, GP surgeries, pharmacists and local council offices. As part of the Scottish Government's national digital public services strategy, Capita will deliver a platform designed to support the ever increasing need for data sharing and tighter interworking requirements across the wider Scottish public sector.

- **Transport for London (TfL)** - secured a 5 year contract with TfL to operate and enforce the congestion charging, low emission zone and traffic enforcement notice processing schemes. Capita will provide the IT systems, back office and contact centre to run the schemes and the associated enforcement processes. Capita will take responsibility for the schemes in November 2015, following a period of implementation which commences in 2014. The overall agreement, including the implementation period, is expected to generate revenue of approximately £145m to Capita.

- **Major contracts worth £25m - £50m**: We have secured a further 7 contracts worth an aggregate value of £263m including a new contract with Genesis Housing Association and an extension to our Metropolitan Police radio managed services contract.

Other updates - Electronic Monitoring: Under an interim services agreement with the Ministry of Justice, Capita took on responsibility for the frontline delivery of the existing electronic monitoring operations in March 2014. We have now been awarded the contract for the new service which will be introduced in stages beginning around May 2015. In the meantime, Capita will continue to deliver the current service. As previously disclosed, we expect the new contract to generate revenues of c.£400m to Capita over the initial 6 year period.

Bid pipeline: Following a period of strong sales wins, the pipeline has been replenished swiftly and currently stands at £5.7bn (February 2014: £5.5bn) including 27 bids of which 90% relates to new business and 10% to contract renewals. The pipeline is well diversified across our target markets and is comprised of 47% in the

private sector, mainly in financial services, utilities, telecoms and retail and 53% public sector, primarily in justice and local government. We are expecting over 50% of bids in the current pipeline to reach decisions by the year end.

We announce the pipeline in February, July and November and it is therefore a snapshot of major bid opportunities at a specific point in time. The pipeline typically reflects the health of the outsourcing market and can be a useful indicator of Capita's potential organic growth. It includes bids worth £25m or above, capped at £1bn and where we have been shortlisted by the client to the last 4 bidders or fewer.

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 5 years (defined as having forecast annual revenue in excess of 1% of 2013 revenue).

Securing value enhancing acquisitions

Our acquisition strategy is to expand our capability and market reach to generate further future organic growth. We acquire small to medium sized businesses which build capability in existing areas and enhance our sales propositions and which also provide accelerated entry into new sectors. This is clearly evidenced by the acquisitions we have made in the last 3 years which are now a key source of our growth, for example, following our acquisitions in the customer management sector, we were able to secure contracts with O2 and npower and in the justice market, we secured the Electronic Monitoring contract.

To date in 2014, we have invested a total of £240m in acquiring 10 organisations including:

Expanding our presence and capability in the utilities sector: To support our growing presence in the utilities sector and enhance our data management capabilities, we have acquired **AMT-SYBEX Group (AMT)** a proprietary software business providing software and related services in mobile technology and smart data management to the utilities and transport sectors. We acquired the business for an initial consideration of £82m on a cash free, debt free basis, plus a contingent consideration of up to £23m (based on the business reaching specific profit targets over the first 12 months of ownership).

Increasing our IT networking capabilities: We have extended our networking capabilities with the acquisition of IT network services provider **Updata Infrastructure (UK)** for a cash consideration of £80m. Updata provides a range of networking and connectivity services to mainly public sector clients and is working with Capita on the framework contract to deliver SWAN. Updata's fully accredited network provides a secure and trusted platform from which multiple services can be delivered across both the private and public sectors. Following the acquisition, Capita's existing networking business will be combined with Updata to create the UK's leading networking integrator.

Extending our capabilities into a new financial services segment: We have acquired **Crown Mortgage Management ('Crown')** a provider of residential and commercial mortgage administration services to banks and financial institutions for a cash consideration of £7.5m. Crown is one of the longest established residential and small balance commercial mortgage servicers in the UK and has significant experience in managing clients' strategies across both performing and non-performing mortgage assets. Capita currently processes £129bn of commercial loans on behalf of banks. The combination of Crown's specialist skills with Capita's large scale administration capability and infrastructure provides us with a strong platform for growth in this sector.

Taking our customer management capabilities into a new geographic region: Earlier this month, we further enhanced this model through the acquisition of **tricontes**, a Munich based customer management company which adds to Capita's customer management capability in the UK and enables us to further support our existing clients, a number of whom have German or other European heritage. The acquisition allows Capita to gain experience and expertise in a new region where there is strong appetite for customer management services and provides a solid platform for gradual, organic expansion. tricontes specialises in delivering a premium service to clients, including contact centre benchmarking and model office services across the retail, telecommunications, utilities and insurance industries.

Market landscape

The UK customer management and BPM market continues to provide significant growth potential for Capita. Leading independent industry analysts, Ovum, estimate that the total UK customer management and BPM addressable market is £126bn per year (72% private and 28% public sector), with less than 10% (£11.9bn) outsourced in 2013.

With this wealth of market opportunity, Capita is well positioned for future growth, particularly due to its continuous drive to broaden its capability and expertise, increasing its ability to penetrate the market further. Operating across 11 distinct markets allows Capita to move flexibly across sectors and focus our sales and operational resources on the most attractive contract opportunities where we can meet both our clients' expectations and generate good returns for the Group.

Market demand for Capita's services remains high due to organisations having to evolve rapidly to meet the challenges they face in their sectors due to structural, regulatory, technology and customer behaviour change particularly in an increasingly digital and mobile world. Our expertise in insight, analytics-led and technology enabled services allows us to help our clients meet these challenges by driving organisational change, improving customer experiences and creating enhanced value for private and public sector organisations.

Future prospects

The market drivers for customer and business process management remains strong resulting in high levels of activity across our 11 target markets. This provides a good platform for long term growth in these markets and new areas where we see opportunity to replicate our experience and expertise and add value. Our proven business model is underpinned by robust financial and governance structures which result in a disciplined sales process, robust operational delivery and good, sustainable financial performance.

We have delivered strong organic growth, excellent cash conversion and stable double digit margins in the first half of 2014. The combination of our good financial and sales performance to date in 2014 and the continued strength of our bid and acquisition pipelines gives us confidence in our full year performance and provides a steady platform for continued growth in 2015 and beyond.

-Ends-

Half year condensed consolidated income statement

for the 6 months ended 30 June 2014

		30 June 2014			30 June 2013		
	Notes	**Underlying £m**	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Continuing operations:							
Revenue	3	**2,071.0**	**—**	**2,071.0**	1,818.8	—	1,818.8
Cost of sales		**(1,491.6)**	**—**	**(1,491.6)**	(1,307.4)	—	(1,307.4)
Gross profit		**579.4**	**—**	**579.4**	511.4	—	511.4
Administrative expenses		**(319.2)**	**(77.8)**	**(397.0)**	(284.6)	(62.0)	(346.6)
Operating profit	3	**260.2**	**(77.8)**	**182.4**	226.8	(62.0)	164.8
Net finance costs		**(22.2)**	**(7.9)**	**(30.1)**	(21.6)	14.3	(7.3)
Profit before tax	3	**238.0**	**(85.7)**	**152.3**	205.2	(47.7)	157.5
Income tax expense		**(44.0)**	**16.4**	**(27.6)**	(39.0)	9.9	(29.1)
Profit for the period		**194.0**	**(69.3)**	**124.7**	166.2	(37.8)	128.4
Attributable to:							
Owners of the Company		**190.1**	**(67.7)**	**122.4**	167.9	(37.5)	130.4
Non-controlling interests		**3.9**	**(1.6)**	**2.3**	(1.7)	(0.3)	(2.0)
		194.0	**(69.3)**	**124.7**	166.2	(37.8)	128.4
Earnings per share	4						
– basic		**28.88p**	**(10.28)p**	**18.60p**	25.82p	(5.77)p	20.05p
– diluted		**28.62p**	**(10.19)p**	**18.43p**	25.56p	(5.71)p	19.85p

Half year condensed consolidated statement of comprehensive income

for the 6 months ended 30 June 2014

		30 June 2014		30 June 2013
	£m	**£m**	£m	£m
Profit for the period		**124.7**		128.4
Other comprehensive (expense)/income				
Items that will not be reclassified subsequently to profit or loss				
Actuarial (loss)/gain on defined benefit pension schemes	**(28.0)**		1.7	
Deferred tax effect	**5.6**		(0.4)	
		(22.4)		1.3
		(22.4)		1.3
Items that will or may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations		**(5.2)**		1.7
Gain/(loss) on cash flow hedges	**2.3**		(0.3)	
Reclassification adjustments for losses included in the income statement	**2.8**		1.2	
Income tax effect	**(1.0)**		(0.2)	
		4.1		0.7
		(1.1)		2.4
Other comprehensive (expense)/income for the period net of tax		**(23.5)**		3.7
Total comprehensive income for the period net of tax		**101.2**		132.1
Attributable to:				
Owners of the Company		**98.9**		134.1
Non-controlling interests		**2.3**		(2.0)
		101.2		132.1

Half year condensed consolidated balance sheet

at 30 June 2014

	30 June 2014	31 December 2013
	£m	£m
Non-current assets		
Property, plant and equipment	**441.3**	419.8
Intangible assets	**2,550.7**	2,330.7
Financial assets	**124.0**	166.4
Trade and other receivables	**71.6**	77.6
	3,187.6	2,994.5
Current assets		
Financial assets	**4.6**	3.1
Funds assets	**128.9**	100.8
Trade and other receivables	**1,042.9**	892.9
Cash	**538.6**	610.8
	1,715.0	1,607.6
Total assets	**4,902.6**	4,602.1
Current liabilities		
Trade and other payables	**1,173.5**	1,023.5
Overdrafts	**504.6**	453.0
Financial liabilities	**75.9**	79.2
Funds liabilities	**128.9**	100.8
Provisions	**67.6**	62.2
Income tax payable	**49.5**	52.5
	2,000.0	1,771.2
Non-current liabilities		
Trade and other payables	**22.3**	26.5
Financial liabilities	**1,802.4**	1,729.9
Deferred tax liability	**2.8**	7.1
Provisions	**38.5**	52.7
Employee benefits	**149.1**	118.4
	2,015.1	1,934.6
Total liabilities	**4,015.1**	3,705.8
Net assets	**887.5**	896.3
Capital and reserves		
Issued share capital	**13.8**	13.8
Share premium	**494.1**	491.2
Employee benefit trust and treasury shares	**(0.4)**	(0.4)
Capital redemption reserve	**1.8**	1.8
Foreign currency translation reserve	**(3.2)**	2.0
Cash flow hedging reserve	**(20.0)**	(24.1)
Retained earnings	**337.5**	350.4
Equity attributable to owners of the Company	**823.6**	834.7
Non-controlling interests	**63.9**	61.6
Total equity	**887.5**	896.3

Included in aggregate financial liabilities is an amount of £1,232.6m (31 December 2013: £1,267.3m) which represents the fair value of the Group's bonds which should be considered in conjunction with the aggregate value of currency and interest rate swaps of £120.9m (31 December 2013: £147.1m) included in financial assets and £21.0m (31 December 2013: £13.5m) included in financial liabilities. Consequently, this gives an effective liability of £1,132.7m (31 December 2013: £1,133.7m).

Half year condensed consolidated statement of changes in equity

for the 6 months ended 30 June 2014

	Share capital	Share premium	Employee benefit trust & treasury shares	Capital redemption reserve	Retained earnings	Foreign currency translation reserve	Cash flow hedging reserve	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2013	13.8	470.4	(0.4)	1.8	408.1	1.7	(17.3)	878.1	—	878.1
Profit for the period	—	—	—	—	130.4	—	—	130.4	(2.0)	128.4
Other comprehensive income/(expense)	—	—	—	—	1.3	1.7	0.7	3.7	—	3.7
Total comprehensive income/(expense) for the period	—	—	—	—	131.7	1.7	0.7	134.1	(2.0)	132.1
Share based payment	—	—	—	—	5.0	—	—	5.0	—	5.0
Income tax deduction on exercise of share options	—	—	—	—	0.9	—	—	0.9	—	0.9
Deferred income tax relating to share based payments	—	—	—	—	4.7	—	—	4.7	—	4.7
Acquisition of subsidiary with a non-controlling interest	—	—	—	—	—	—	—	—	30.2	30.2
Shares issued	0.1	11.4	—	—	—	—	—	11.5	—	11.5
Equity dividends paid	—	—	—	—	(102.1)	—	—	(102.1)	—	(102.1)
At 30 June 2013	13.9	481.8	(0.4)	1.8	448.3	3.4	(16.6)	932.2	28.2	960.4
At 1 January 2014	13.8	491.2	(0.4)	1.8	350.4	2.0	(24.1)	834.7	61.6	896.3
Profit for the period	**—**	**—**	**—**	**—**	**122.4**	**—**	**—**	**122.4**	**2.3**	**124.7**
Other comprehensive income/(expense)	**—**	**—**	**—**	**—**	**(22.4)**	**(5.2)**	**4.1**	**(23.5)**	**—**	**(23.5)**
Total comprehensive income/(expense) for the period	**—**	**—**	**—**	**—**	**100.0**	**(5.2)**	**4.1**	**98.9**	**2.3**	**101.2**
Share based payment	**—**	**—**	**—**	**—**	**5.8**	**—**	**—**	**5.8**	**—**	**5.8**
Income tax deduction on exercise of share options	**—**	**—**	**—**	**—**	**2.0**	**—**	**—**	**2.0**	**—**	**2.0**
Deferred income tax relating to share based payments	**—**	**—**	**—**	**—**	**1.1**	**—**	**—**	**1.1**	**—**	**1.1**
Fair value movement in put option of non-controlling interest	**—**	**—**	**—**	**—**	**(4.6)**	**—**	**—**	**(4.6)**	**—**	**(4.6)**
Shares issued	**—**	**2.9**	**—**	**—**	**—**	**—**	**—**	**2.9**	**—**	**2.9**
Equity dividends paid	**—**	**—**	**—**	**—**	**(117.2)**	**—**	**—**	**(117.2)**	**—**	**(117.2)**
At 30 June 2014	**13.8**	**494.1**	**(0.4)**	**1.8**	**337.5**	**(3.2)**	**(20.0)**	**823.6**	**63.9**	**887.5**

Half year condensed consolidated cash flow statement

for the 6 months ended 30 June 2014

	Notes	**30 June 2014 £m**	30 June 2013 £m
Cash flows from operating activities			
Operating profit on continuing activities before interest and taxation		**182.4**	164.8
Adjustment for non-cash items:			
Depreciation		**39.2**	38.5
Amortisation of intangible assets (treated as depreciation)		**3.1**	1.3
Amortisation of intangible assets recognised on acquisition		**71.1**	52.9
Share based payment expense		**5.8**	5.0
Employee benefits		**0.1**	1.7
Non-underlying items		**(2.0)**	1.6
Movement in provisions (net)		**(0.2)**	(0.9)
Loss on disposal of property, plant and equipment		**0.7**	0.1
Movement in receivables and payables		**(9.3)**	(25.8)
Cash generated from operations before non-underlying cash items		**290.9**	239.2
Arch Cru		**(0.7)**	—
Movement in restructuring provision		**(10.5)**	—
Cash generated from operations		**279.7**	239.2
Income tax paid		**(42.0)**	(11.8)
Net interest paid		**(19.8)**	(19.2)
Net cash inflow from operating activities		**217.9**	208.2
Cash flows from investing activities			
Purchase of property, plant and equipment		**(55.9)**	(41.5)
Purchase of intangible assets		**(3.1)**	(5.4)
Proceeds from sale of property, plant and equipment		**0.3**	—
Acquisition of public sector subsidiary partnerships		**(6.8)**	(24.9)
Debt repaid on acquisition of public sector subsidiary partnerships		**—**	(9.2)
Acquisition of subsidiary undertakings and businesses		**(219.6)**	(190.1)
Debt repaid on acquisition of subsidiary undertakings		**(17.1)**	(1.6)
Cash acquired with subsidiary undertakings		**15.7**	10.2
Deferred consideration paid		**(23.9)**	—
Contingent consideration paid		**(8.5)**	(14.0)
Purchase of financial assets		**(5.9)**	(0.7)
Net cash outflow from investing activities		**(324.8)**	(277.2)
Cash flows from financing activities			
Issue of ordinary share capital		**2.9**	11.5
Dividends paid	5	**(117.2)**	(102.1)
Capital element of finance lease rental payments	8	**(2.4)**	(4.2)
Proceeds on issue of debt	8	**100.0**	—
Financing arrangement costs		**(0.2)**	—
Repayment of bonds and long term debt	8	**—**	(32.3)
Net cash outflow from financing activities		**(16.9)**	(127.1)
Net decrease in cash and cash equivalents		**(123.8)**	(196.1)
Cash and cash equivalents at the beginning of the period		**157.8**	306.7
Cash and cash equivalents at 30 June		**34.0**	110.6
Cash and cash equivalents comprise:			
Cash at bank and in hand		**538.6**	544.1
Overdraft		**(504.6)**	(433.5)
Total	8	**34.0**	110.6

Notes to the half year condensed consolidated financial statements

for the 6 months ended 30 June 2014

1 Corporate information

Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The half year condensed consolidated financial statements of the Company and its subsidiaries ('the Group') for the 6 months ended 30 June 2014 were authorised for issue in accordance with a resolution of the Directors on 22 July 2014.

2 Basis of preparation, judgements and estimates, accounting policies, principal risks and uncertainties and going concern

(a) Basis of preparation

The half year condensed consolidated financial statements for the 6 months ended 30 June 2014 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting.

The half year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

This condensed consolidated half year financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2013 were approved by the Board of Directors on 26 February 2014 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The half year condensed consolidated financial statements for the 6 months ended 30 June 2014 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

(b) Judgements and estimates

In preparing these half year condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities and income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at the year ended 31 December 2013.

(c) Significant accounting policies

The accounting policies adopted in preparation of the half year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the following new standards, amendments and interpretations with an initial date of application of 1 January 2014.

IAS 27 Amendment: Separate Financial Statements Reissued as IAS 27 Separate Financial Statements (as amended in 2011) previously IAS 27 Consolidated and Separate Financial Statements (2008). Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 Consolidated Financial Statements. There has been no impact in relation to this amendment.

IAS 28 Amendment: Investments in Associates and Joint Ventures The objective of the proposed amendments is to provide additional guidance to IAS 28 on the application of the equity method, a method of accounting whereby the investment is initially recognised at cost and subsequently adjusted to reflect the change in the investor's share of the investee's net assets. Specifically, it aims to provide guidance on how investors should recognise their share of the changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee, and that are not distributions received ('other net asset changes'). There has been no impact as a result of applying this amendment.

IAS 32 Amendment: Offsetting Financial Assets and Financial Liabilities The amendment clarifies that a legal and enforceable right of set-off exists if that set-off is not contingent on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and that some gross settlement systems may be equivalent to net settlement. The impact of not having the right to enforce set-off in the circumstances described, would be to decrease the amounts that could be set-off; there is no impact on the Group as a result of applying the amended standard.

IFRS 10 Consolidated Financial Statements - establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. An investor determines whether it is a parent by assessing whether it controls one or more investees. An investor considers all relevant facts and circumstances when assessing whether it controls an investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns

The Group has conducted a review of the entities that it consolidates to ensure that control is exhibited. This exercise demonstrated that the Group had the requisite control over these entities and thus the introduction of the new standard has not impacted these financial statements.

IFRS 10, IFRS 12, IAS 27 Amendments: Investment Entities provides an exception to the requirement to consolidate for entities that meet the definition of an "Investment entity" under IFRS 10 Consolidated Financial Statements i.e. one whose sole purpose is to make investments for capital appreciation, investment income, or both and who evaluate the performance of those investments on a fair value basis. The amendments also set out the disclosure requirements of such entities and requirements for their separate financial statements. As the Group has no component that would meet the definition as described above, there is no impact from these amendments.

IFRS 11 Joint Arrangements involves the assessment of an entity's rights and obligations in respect of a joint arrangement and how it accounts for those rights and obligations in accordance with the classification of that joint arrangement. The Group has made an assessment of each of its activities that might involve a joint arrangement and potentially result in a change in presentation. On conclusion of this exercise it was determined that there had been no change in presentation required by the new standard as no existing arrangements fall to be treated as proposed.

IFRS 12 Disclosure of Interests in Other Entities is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The standard applies to annual financial statements only. The impact of the standard will be to introduce extra disclosure into the annual financial statements describing the nature of the Group's interests in the types of entity referred to above.

IFRS 10, IFRS 11, IFRS 12 Amendments: Transition Guidance The amendments are intended to provide additional transition relief in IFRS 10 , IFRS 11 Joint Arrangements and IFRS 12 Consolidated Financial Statements, IFRS 11 Disclosure of Interests in Other Entities, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period". Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period.

IAS 36 Amendments: Recoverable Amount Disclosures for Non-Financial Assets These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required for IAS 36 Impairment of assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period.

IAS 39 Amendments: Novation of Derivatives and Continuation of Hedge Accounting These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the Group as the Group has not novated any derivatives in the current or prior period.

IFRIC 21 Levies is effective for annual periods beginning or after 1 January 2014 and is applied retrospectively. It provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. However, it does not include income taxes, fines and other penalties, liabilities arising from emissions trading schemes and outflows within the scope of other Standards. There has been no impact on these financial statements as a result of adopting this interpretation.

(d) Principal risks and uncertainties and going concern

The Directors have considered the principal risks and uncertainties affecting the Group's financial position and prospects in 2014. As described on pages 35 to 39 of the Group's Annual Report for 2013, the Group continues to be exposed to a number of risks and has well established systems and procedures in place to identify, assess and mitigate those risks. The risks faced by the Group have not changed significantly over the first 6 months of 2014 and are not expected to change materially in the remaining 6 months.

The principal risks include those arising from: failure to meet service level agreements, possible loss of contracts and damage to brand reputation; counter-party failure including disruption to supply chains or service interruption; failure to achieve planned synergies in acquisitions; weaker economic conditions are a key driver for outsourcing but extreme economic uncertainty may result in delays in purchasing decisions and reduced discretionary spend in some market segments; regulatory changes in different jurisdictions may impact businesses in those locations; failure to attract and maintain key staff; failure to secure sensitive or confidential data; and failure to comply with complex laws and regulations.

Although the Group is not directly exposed to significant overseas sovereign and currency risks, it is exposed indirectly to increased counter-party risk. The Group attempts to mitigate this risk by counter-party monitoring and the avoidance of concentrations of counter-party 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 the Group is well placed to manage its business risks 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 Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half year condensed consolidated financial statements.

3 Segmental information

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2014 and 2013 respectively. The comparative figures have been restated due to a reorganisation of the Group's business segments and a consequent change in the way in which the results of the business are reported to the Group Board.

6 months ended 30 June			**2014**			2013
	Total revenue	**Inter-segment revenue**	**External revenue**	Total revenue	Inter-segment revenue	External revenue
Analysis of segment revenue	**£m**	**£m**	**£m**	£m	£m	£m
Health & Wellbeing	**96.3**	**(11.7)**	**84.6**	106.7	(10.8)	95.9
IT Services	**295.4**	**(60.0)**	**235.4**	283.0	(53.7)	229.3
Professional Services	**335.4**	**(63.3)**	**272.1**	312.9	(56.5)	256.4
Justice & Secure Services	**262.5**	**(19.8)**	**242.7**	194.4	(19.2)	175.2
Property & Infrastructure	**159.5**	**(16.4)**	**143.1**	140.7	(15.3)	125.4
Workplace Services	**361.8**	**(16.1)**	**345.7**	292.0	(17.0)	275.0
Customer Management & International	**343.1**	**(8.3)**	**334.8**	198.2	(10.2)	188.0
Asset Services	**131.3**	**(11.0)**	**120.3**	121.2	(10.5)	110.7
Insurance & Benefits Services	**332.4**	**(40.1)**	**292.3**	399.8	(36.9)	362.9
Total segments	**2,317.7**	**(246.7)**	**2,071.0**	2,048.9	(230.1)	1,818.8

	6 months to 30 June 2014	6 months to 30 June 2013
Analysis of segment profit	**£m**	**£m**
Health & Wellbeing	**9.5**	15.5
IT Services	**15.3**	10.0
Professional Services	**62.7**	59.6
Justice & Secure Services	**30.9**	30.8
Property & Infrastructure	**10.1**	6.9
Workplace Services	**43.6**	33.4
Customer Management & International	**36.9**	21.2
Asset Services	**29.4**	27.6
Insurance & Benefits Services	**21.8**	21.8
Total underlying segment profit	**260.2**	226.8
Net underlying finance costs	**(22.2)**	(21.6)
Underlying profit before tax	**238.0**	205.2
Non-underlying items:		
Intangible amortisation	**(71.1)**	(52.9)
Acquisition costs	**(8.7)**	(7.5)
Other operating income/(expense)	**2.0**	(1.6)
Finance (expense)/income	**(7.9)**	14.3
Profit before tax	**152.3**	157.5

4 Earnings per share

The average number of shares in issue during the period was 658.2m (30 June 2013: 650.2m). The diluted earnings per share have been calculated on the profit for the period attributable to shareholders of £122.4m (30 June 2013: £130.4m) and an average diluted number of shares of 664.2m (30 June 2013: 657.0m). As at July 22, 2014, there were 658.8m shares in issue.

5 Dividends

The interim dividend of 9.6p (2013: 8.7p) per share (not recognised as a liability at 30 June 2014) will be payable on 7 October 2014 to ordinary shareholders on the register at the close of business on 29 August 2014. The dividend disclosed in the cash flow statement represents the final ordinary dividend of 17.8p (2013: 15.6p) per share as proposed in the 31 December 2013 financial statements and approved at the Group's AGM (not recognised as a liability at 31 December 2013).

6 Business combinations

The Group has made a number of acquisitions in the period which are shown in aggregate below:

	Provisional fair value to Group £m
Property, plant and equipment	**7.3**
Intangible assets	**99.0**
Trade and other receivables < 1 year	**42.3**
Trade and other receivables > 1 year	**0.9**
Cash and cash equivalents	**15.7**
Trade and other payables < 1 year	**(51.5)**
Accruals < 1 year	**(16.3)**
Trade and other payables > 1 year	**(4.8)**
Provisions	**(2.6)**
Income tax	**(0.2)**
Deferred tax	**(16.4)**
Employee benefits liability	**(0.2)**
Long term debt	**(17.1)**
Net assets	**56.1**
Goodwill arising on acquisition	**191.7**
	247.8
Discharged by:	
Cash consideration paid	**215.4**
Contingent consideration accrued	**32.4**
	247.8

The full exercise to determine the fair value of intangible assets acquired is still to be completed, thus the above numbers are provisional. In respect of the acquisitions made in 2014, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 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 £40m. The Group has included £32.4m 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.

Further cash consideration was paid in respect of previous acquisitions of £39.2m.

7 Provisions

	Restructuring provision	Insurance captive provision	Property provision	Other	Total
	£m	£m	£m	£m	£m
At 1 January 2014	41.3	25.1	36.6	11.9	114.9
Utilisation	**(10.5)**	**(1.1)**	**(1.1)**	**(4.0)**	**(16.7)**
Additional provisions in the period	**—**	**—**	**1.8**	**3.5**	**5.3**
Provisions acquired	**—**	**—**	**2.6**	**—**	**2.6**
At 30 June 2014	**30.8**	**24.0**	**39.9**	**11.4**	**106.1**

The restructuring provision is for unavoidable costs which will be incurred due to the decision in 2013 to dispose of the insurance distribution business and to close the 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.

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.

8 Movement in net debt

	Net debt at 1 January 2014	**Acquisitions in 2014**	**Cash flow movements**	**Non-cash flow movements**	**Net debt at 30 June 2014**
	£m	**£m**	**£m**	**£m**	**£m**
Cash[+]	**157.8**	**15.7**	**(139.5)**	**—**	**34.0**
Unsecured loan notes	**(10.4)**	**—**	**0.2**	**—**	**(10.2)**
Bonds*	**(1,267.3)**	**—**	**—**	**34.7**	**(1,232.6)**
Currency swaps in relation to US $ denominated bonds*	**125.9**	**—**	**—**	**(33.5)**	**92.4**
Interest rate swaps in relation to GBP denominated bonds*	**7.7**	**—**	**—**	**(0.2)**	**7.5**
Term loan	**(200.0)**	**—**	**(100.0)**	**—**	**(300.0)**
Long term debt	**—**	**(17.1)**	**17.1**	**—**	**—**
Obligations under finance leases	**(17.3)**	**—**	**2.6**	**—**	**(14.7)**
Underlying net debt	**(1,203.6)**	**(1.4)**	**(219.6)**	**1.0**	**(1,423.6)**
Fixed rate interest rate swaps	**(26.6)**	**—**	**—**	**(6.9)**	**(33.5)**
	(1,230.2)	**(1.4)**	**(219.6)**	**(5.9)**	**(1,457.1)**

[+] Cash comprises cash, cash equivalents and overdrafts.

* The aggregate bond fair value above of £1,232.6m (30 June 2013: £1,362.3m) includes the GBP value of the US$ denominated bonds. 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 swaps are being used to hedge the exposure to changes in the fair value of GBP denominated bonds. The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,132.7m (30 June 2013: £1,117.0m).

In May 2014, the Group raised £100m of bank debt under a 5 year term loan facility.

	Net debt at 1 January 2013	Acquisitions in 2013	Cash flow movements	Non-cash flow movements	Net debt at 30 June 2013
	£m	£m	£m	£m	£m
Cash[+]	306.7	10.2	(206.3)	—	110.6
Unsecured loan notes	(0.5)	—	—	—	(0.5)
Bonds*	(1,370.1)	—	32.3	(24.5)	(1,362.3)
Currency swaps in relation to US $ denominated bonds*	206.2	—	—	27.8	234.0
Interest rate swaps in relation to GBP denominated bonds*	15.9	—	—	(4.6)	11.3
Term loan	(185.0)	—	—	—	(185.0)
Long term debt	—	(10.8)	10.8	—	—
Obligations under finance leases	(2.7)	(25.4)	4.2	0.5	(23.4)
Underlying net debt	(1,029.5)	(26.0)	(159.0)	(0.8)	(1,215.3)
Fixed rate interest rate swaps	(52.9)	—	—	15.9	(37.0)
	(1,082.4)	(26.0)	(159.0)	15.1	(1,252.3)

9 Financial instruments

Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short term debtors, creditors, fund payables/receivables and cash in hand) that are carried in the financial statements. The values below represent the carrying amounts. The fair values are the same as the carrying values other than two fixed rate bonds totalling £125.0m, included below in the bond value of £1,232.6m, with a carrying value of £125.0m and a fair value of £126.7m.

As at 30 June 2014	**Available-for-sale**	**At fair value through the income statement**	**Loans and receivables**	**Derivatives used for hedging**	**Other financial liabilities**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Unlisted equity securities	**2.3**	**—**	**—**	**—**	**—**	**2.3**
Investment loan	**—**	**—**	**5.0**	**—**	**—**	**5.0**
Non-designated foreign exchange forward contracts	**—**	**0.4**	**—**	**—**	**—**	**0.4**
Interest rate swaps in relation to GBP denominated bonds	**—**	**—**	**—**	**7.5**	**—**	**7.5**
Currency swaps in relation to US$ denominated bonds	**—**	**—**	**—**	**113.4**	**—**	**113.4**
	2.3	**0.4**	**5.0**	**120.9**	**—**	**128.6**
Financial liabilities						
Overdrafts	**—**	**—**	**—**	**—**	**504.6**	**504.6**
Unsecured loan notes	**—**	**—**	**—**	**—**	**10.2**	**10.2**
Bonds	**—**	**—**	**—**	**—**	**1,232.6**	**1,232.6**
Term loan	**—**	**—**	**—**	**—**	**300.0**	**300.0**
Cash flow hedges	**—**	**—**	**—**	**25.1**	**—**	**25.1**
Non-designated foreign exchange forward contracts	**—**	**2.5**	**—**	**—**	**—**	**2.5**
Currency swaps in relation to US$ denominated bonds	**—**	**—**	**—**	**21.0**	**—**	**21.0**
Contingent consideration	**—**	**—**	**—**	**—**	**57.1**	**57.1**
Deferred consideration	**—**	**—**	**—**	**—**	**27.8**	**27.8**
Obligations under finance leases	**—**	**—**	**—**	**—**	**14.7**	**14.7**
Public sector subsidiary partnership payment	**—**	**—**	**—**	**—**	**53.2**	**53.2**
Put options of non-controlling interests	**—**	**—**	**—**	**—**	**100.6**	**100.6**
Fixed rate interest rate swaps	**—**	**33.5**	**—**	**—**	**—**	**33.5**
	—	**36.0**	**—**	**46.1**	**2,300.8**	**2,382.9**

As at 31 December 2013	Available-for-sale	At fair value through the income statement	Loans and receivables	Derivatives used for hedging	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£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						
Overdrafts	—	—	—	—	453.0	453.0
Unsecured loan notes	—	—	—	—	10.4	10.4
Bonds	—	—	—	—	1,267.3	1,267.3
Term loan	—	—	—	—	200.0	200.0
Cash flow hedges	—	—	—	30.2	—	30.2
Non-designated foreign exchange forward contracts	—	1.8	—	—	—	1.8
Currency swaps in relation to US$ denominated bonds	—	—	—	13.5	—	13.5
Contingent consideration	—	—	—	—	35.2	35.2
Deferred consideration	—	—	—	—	58.6	58.6
Obligations under finance leases	—	—	—	—	17.3	17.3
Public sector subsidiary partnership payment	—	—	—	—	52.2	52.2
Put options of non-controlling interests	—	—	—	—	96.0	96.0
Fixed rate interest rate swaps	—	26.6	—	—	—	26.6
	—	28.4	—	43.7	2,190.0	2,262.1

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for unlisted equity securities and investment loans. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. Unlisted equity securities and investment loans are held at amortised cost. The Group enters into derivative financial instruments with multiple counterparties, all of which are financial institutions with investment grade credit ratings.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2014, the Group held the following financial instruments measured at fair value:

	30 June 2014	31 December 2013
	£m	£m
Assets measured at fair value		
Non-designated foreign exchange forward contracts	**—**	0.1
Interest rate swaps in relation to GBP denominated bonds	**7.5**	7.7
Currency swaps in relation to US$ denominated bonds	**113.4**	139.4
	120.9	147.2
Liabilities measured at fair value		
Bonds	**1,107.6**	1,142.3
Cash flow hedges	**25.1**	30.2
Non-designated foreign exchange forward contracts	**2.5**	1.8
Currency swaps in relation to US$ denominated bonds	**21.0**	13.5
Fixed rate interest rate swaps	**33.5**	26.6
Public sector subsidiary partnership payment	**53.2**	52.2
Put option of non-controlling interests	**100.6**	96.0
Contingent consideration	**57.1**	35.2
	1,400.6	1,397.8

During both periods 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 6 months ended 30 June 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

Contingent consideration arises in business acquisitions where the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. The Group makes provision for such contingent consideration for each acquisition based on an assessment of its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation. A sensitivity analysis was performed on the expected contingent consideration of £57.1m. The sensitivity analysis performed adjusted the probability of payment of the contingent amounts. A 10% increase in the probability of contingent consideration being paid results in an increase in potential contingent consideration of £2.1m. A 10% decrease in the probability of the contingent consideration being paid results in a decrease in potential contingent consideration of £3.2m.

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 £53.2m 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 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	Subsidiary partnership payment	Put options of non-controlling interests
	£m	£m	£m
At 1 January 2014	35.2	52.2	96.0
Arising from business combinations in the period	**32.4**	**—**	**—**
Profit and loss movement – administrative expenses	**(2.0)**	**—**	**—**
Profit and loss movement – finance expense	**—**	**1.0**	**—**
Equity movement - Fair value movement in put options	**—**	**—**	**4.6**
Utilised	**(8.5)**	**—**	**—**
At 30 June 2014	**57.1**	**53.2**	**100.6**

10 Capital commitments

At 30 June 2014, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £0.2m (30 June 2013: £0.1m).

11 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Compensation of key management personnel (including Directors of parent company)

	6 months 30 June 2014	6 months 30 June 2013
	£m	£m
Short term employment benefits	**3.1**	2.8
Post employment benefits	**0.1**	0.1
Share based payments	**2.1**	2.0
	5.3	4.9

Gains on share options exercised in the period by key management personnel totalled £3.3m (30 June 2013: £7.4m).

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 17 July 2014 was as below:

Shareholder	**No. of shares**	**% of voting rights**
Woodford Investment Management LLP	**20,672,123**	**3.13 %**
BlackRock Inc	**34,081,348**	**5.16 %**
Invesco Limited	**78,545,228**	**11.88 %**
Legal & General Group Plc	**19,818,538**	**3.00 %**
Veritas Asset Management (UK) Limited	**42,647,140**	**6.45 %**

12 Contingent liabilities

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £81.2m (31 December 2013: £88.4m).

Statement of Directors' responsibilities

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Half Year Management Report includes a fair review of the information required by Rules 4.2.4, 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority.

The names and functions of the Directors of Capita plc are as listed in the Group's Annual Report for 2013. A list of current Directors is maintained on the Group website: www.capita.co.uk.

By order of the Board

A Parker	G M Hurst
Chief Executive	Group Finance Director
22 July 2014	