CAPITA

22 July 2010

THE CAPITA GROUP PLC

Half year results for the 6 months to 30 June 2010

GOOD PERFORMANCE AND PROSPECTS

Financial highlights

	Half year 2010	Half year 2009	**Change**
Turnover	£1,361m	£1,311m	**+ 4%**
Underlying operating profit*	£178.4m	£159.6m	**+ 12%**
Underlying profit before tax*	£163.1m	£141.7m	**+ 15%**
Underlying earnings per share*	19.60p	16.92p	**+ 16%**
Interim dividend per share	6.6p	5.6p	**+ 18%**

** excludes intangible amortisation and acquisition costs of £18.2m (H1 2009: £9.9m), the non-cash impact of mark to market movement on financial instruments of £12.5m charge (H1 2009: £3.0m credit).*

Key points

- Major contracts wins and renewals of £523m (6 months to 30 June 2009: £814m)
- Buoyant bid pipeline of £4.4bn (Feb 2010: £3.7bn)
- 7 acquisitions completed to date in 2010 at a cost of £107m
- Operating margin increased to 13.1% (6 months to 30 June 2009: 12.2%)
- Strong underlying free cash flow – up 15% to £140m (6 months to 30 June 2009: £122m)
- 18% increase in half year dividend to 6.6p per share
- £1.03bn returned to shareholders over last 5 years

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

"Capita has made good progress in 2010. We have secured new and renewed major contracts worth £523m in the first 6 months of the year and the majority of our businesses across the Group delivered robust results.

Capita is well placed to continue its growth and is now enjoying a very healthy flow of new business opportunities. There is buoyant demand for outsourcing across both the private and public sectors, with the most active markets in our strong bid pipeline remaining local government and life and pensions. Whilst the current pressures on public spending may potentially affect growth in the short term in a small number of our trading activities, the need for our public sector clients to achieve substantial cost efficiencies offers significant opportunities for the Group going forwards.

Our pipeline of sales prospects, 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

Half year results for the 6 months to 30 June 2010

Capita, the UK's leading business process outsourcing ("BPO") and professional services company, has made good progress in the first 6 months of 2010. The majority of our businesses across the Group have performed well and we have secured new and renewed major contracts worth £523m in the first 6 months of the year.

In the 6 months ended 30 June 2010, turnover increased by 4% to £1,361m (6 months to 30 June 2009: £1,311m). Revenue growth has been impacted by the lower number of new major contracts secured last year and, as highlighted in February 2010, by an unusually high level of contract completions and lower client expenditure on project activity. Underlying operating profit* rose by 12% to £178.4m (2009: £159.6m) and underlying profit before taxation* increased by 15% to £163.1m (2009: £141.7m). Underlying earnings per share* grew by 16% to 19.60p (2009: 16.92p).

Underlying operating cash flow rose by 9% to £216m (2009: £198m). We have increased our interim dividend by 18% to 6.6p per share (2009: 5.60p).

** excludes intangible amortisation and acquisition costs of £18.2m (H1 2009: £9.9m), the non-cash impact of mark to market movement on financial instruments of £12.5m charge (H1 2009: £3.0m credit).*

Building value for shareholders

To ensure we build value for shareholders on a consistent, long term basis, we focus on a number of additional key financial measures including:

- **Margin** - our focus remains on generating a steadily improving operating margin. In the period, operating margin (before amortisation) was 13.1% (2009: 12.2%). Our continued margin progression is due to our focus on operating at optimum efficiency across the Group, our ability to drive out benefits from our extensive scale, in particular through IT rationalisation, property consolidation and effective procurement, and the sophistication and added value of the services we deliver to clients. These factors underpin our confidence in continuing to deliver improving margin for the foreseeable future.

- **Cash flow** - the strength of our business model is reflected in our excellent underlying cash flow, with £216m (2009: £198m) generated by operations in the period, representing an operating profit to cash conversion rate of 121% (2009: 124%). Our underlying free cash flow increased by 15% to £140m (2009: £122m).

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, strengthen existing market positions and build economies of scale, or access a new customer base. Acquisitions have consistently been a key driver for enhancing value to our shareholders by both generating excellent returns on capital and by building platforms for future organic growth.

  To date in 2010, we have spent £107m on 7 acquisitions. We will continue with our strategy of acquiring small to medium-sized businesses which are priced at a level which add value for our shareholders. Current market conditions are fuelling our pipeline of potential acquisitions and we expect to be active in acquiring further suitable businesses in the second half of the year. We remain highly selective and have a robust process for smoothly integrating acquisitions into the Group and driving out value.

- **Share buybacks** - opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. In the 6 months to 30 June 2010, the Group has bought back 11.7 million shares (representing 1.9% of the issued share capital) at an average price of 765p per share. Following these buybacks the Company has 609 million shares in issue (excluding shares held in Treasury and the Capita Employee Benefit Trust). We will continue to buy back shares if attractive opportunities arise. Shareholders renewed the Group's authority to purchase up to 10% of issued share capital at our AGM in May 2010. The Group has returned £1.03bn to shareholders over the last 5 years through share buybacks, ordinary dividends and special dividends.

- **Interim dividend** – the Board has declared an interim dividend of 6.6p per ordinary share (2009: 5.6p), representing an increase of 18%. The dividend will be payable on 12 October 2010 to shareholders on the register at the close of business on 3 September 2010.

- **Capital expenditure** – we aim to contain capital expenditure at or below 4% of revenue. During the period, we met this objective with net capital expenditure at 2.8% (2009: 2.7%) of revenue.

- **Return on capital employed** – we deploy our capital carefully and focus on driving a healthy return on capital. Over the last 12 months, the post tax return on average capital employed (including debt) was 20.2% (12 months to 30 June 2009: 20.2%). This compares to our estimated weighted average cost of capital which is 7.8%.

Additional financial information

Debt profile – We aim to maintain a conservative balance sheet with substantial headroom to take advantage of opportunities to add value to shareholders as they arise. On 30 June 2010, we issued £253m of 7 and 10 year private placement notes. Following this issuance, we have £834m of private placement debt which matures between 2012 and 2020. The proceeds of the new issues were used to repay a more expensive £200m bank term loan that was due to mature in July 2011. In addition to cash of £112m held by the Group, we have an unutilised committed revolving credit facility of £245m maturing in December 2011.

Our marketplace

We remain the clear leader in the overall UK BPO market with a 27% market share in 2009 (25.5% 2008). Industry analysts estimate the total potential market at £94.2bn per annum (private sector 67% and public sector 33%) with only 6% outsourced to date.[†] We are experiencing high levels of interest across both the private and public sectors as organisations seek alternative and more efficient service delivery models.

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: Each of our businesses employs sales teams focused upon securing growth from both existing and new customers. A good performance has been achieved across the Group in the first half of the year, particularly in our financial services, local government, property consultancy, resourcing and IT services businesses.

Our centrally managed Major Sales Team pursues complex, long term contracts worth over £10m which require a wide range of the Group's skills and generate high quality, recurring revenues. Securing and renewing major contracts remains an important component of our growth.

[†]Source: Ovum 2008 and 2009

To date in 2010, 17 new contracts and extensions with an aggregate value of £523m have been secured. (H1 2009: £814m, 10 contracts). 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 storage and Constructionline contracts and expansions of 2 of our local government strategic partnerships, and:

- **Harrow Council:** Harrow Council has agreed in principle to transfer the authority's IT services to Capita, subject to consultation with staff and unions. The exact way in which this would be provided is still being decided. This would also be subject to signing a satisfactory 10-year contract with Capita, with a 5 year break clause. If agreed, the contract is expected to be worth around £50m to Capita.

- **Marsh:** We are in the final stages of negotiations regarding an expansion of our partnership to deliver back office functions and processing services to enhance Marsh UK's broking activities to clients across its business.

- **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, Manchester City Council and Rochdale Metropolitan Borough Council**, worth in aggregate £97m. All of these contracts have been confirmed as going ahead.

- **Nottinghamshire County Council and East Midlands Broadband Consortium (embc):** A new arrangement to provide networking, applications and services to Nottinghamshire CC, worth £30m, and an extension to the embc contract, both secured by our newly acquired Synetrix business.

- **Virgin Money and Sheffield City Council:** As previously announced, we are in the final stages of negotiations with Virgin Money regarding the provision of end-to-end sales support, policy administration and processing services for a new home and motor insurance proposition. Also, we are working to agree terms with Sheffield CC, under their existing partnership agreement, to deliver and transform their customer services function.

Market activity and opportunities – the fuel for growth

Our bid pipeline currently stands at £4.4bn (February 2010: £3.7bn) and only includes bid situations in which Capita is shortlisted to the last 4 or fewer bidders and caps the largest bids at £500m. We have no material contracts (defined as having annual revenue in excess of 1% of 2009 turnover) due for rebid until 2012.

The bid pipeline reflects the continued quality and quantity of business opportunities across our private and public sector markets. The bid pipeline is currently made up of 23 bids with an average contract duration of 8 years. Behind this is an active prospect list of opportunities which are yet to reach a shortlist stage, the fuel for the next tranche of potential outsourcing contracts.

Across our pipeline, our most active markets remain local government and life and pensions. Additionally, there are several interesting central government, health and defence opportunities.

Below we have highlighted some of the drivers for outsourcing and opportunities in a number of our public sector markets due to the current increased focus on restructuring and remodelling public services to deliver essential services efficiently.

- **Central government:** Central government contracts currently represent approximately 9% of our Group turnover. Fiscal pressure across Government is generating a strong focus on ways to deliver essential services at lower cost. We are very encouraged by the decisiveness and pace being demonstrated by the Coalition Government to tackle the fiscal position. It was announced in the emergency budget in June that Government departments should seek to make a reduction of 25% in costs and subsequently the civil service has been tasked to identify further cost savings of up to 40% to be achieved over the course of the next spending period starting April 2011. The Government is expected to review services currently delivered by the public sector and engage with outsourcing companies more widely and innovatively to help streamline and administer public services through different delivery models. With our breadth of capabilities and track record, we believe we are well placed to help Government achieve the required efficiencies whilst protecting the quality of services.

- **Local government:** The local government market remains an area of high interest and opportunity for us. Services we deliver to local authorities represent 23% of Group revenues. Local authorities have been under fiscal pressure for a number of years and are now facing the need to achieve even greater cost savings. Strategic partnerships with outsourcing companies are an established and recognised model for achieving service improvements and cost efficiencies in this market. We are currently experiencing an increase in engagement both with our current clients to explore expanding the remit of our existing partnerships to assist them further and with potential clients who are seeking wide ranging partnerships to remodel their services to meet the needs of citizens within reduced budgets. Increasingly authorities are seeking assistance in consolidating and managing their property estates and using workspace more effectively. There is also an increased appetite to push forward the joint delivery of local public services currently delivered by separate organisations and to share common support services. Our footprint in the local authority market and the health market positions us well to help local authorities respond to the proposed structural changes in the recent NHS White Paper “Liberating the NHS”.

- **Health:** We have continued to build our capabilities and resources to meet the needs of the health market. We entered the health market in 2004 with the acquisition of AON Health Solutions. Today, the health market accounts for 4% of Group revenues. As patient demand continues to grow against a backdrop of tighter funding, we see further opportunities for growth in this market. Our contract with NHS BSA, to provide processing and payments of c.40m dental claims p.a. in England and Wales, and a managed IT service to support the Authority, commenced at the beginning of July and we are now focused on delivering service quality improvement and introducing efficiencies to the Authority. Our recent acquisition of Premier Medical Group, a leading provider of medical reporting and screening services in the UK, further expands our service portfolio and provides greater depth of experience in working with and managing medical professionals. The recent NHS White Paper highlights the need to cut bureaucracy and administration costs while increasing productivity and service quality. We are well placed to bring together our skills and experience in the health market with our ability to re-engineer processes and customer services to assist health organisations to address these challenges.

Stimulating growth through acquisition: A key element of our growth is the acquisition of small to medium sized companies which extend our presence in existing marketplaces or provide a footprint in a new market. We have substantial experience of integrating acquired businesses and achieving synergies with our existing operations. To date in 2010, we have acquired 7 businesses for a total consideration of £107m including:

- **Premier Medical Group** – a leading provider of medical reporting and screening services across the UK, acquired for £60m in June, further demonstrates Capita’s commitment to the health sector. We are currently integrating our existing occupational health business with Premier Medical Group to offer a wider, improved service to our clients and to gain operating synergies.

- **Ramesys** – a provider of integrated ICT solutions to the education and commercial sector. This acquisition, for £15m, allows us to broaden and deepen our own expertise in the education technology market and also enables us to compete for larger and more complex education IT projects.

- **NB Real Estate** – commercial property management specialists, acquired for £10m. Combined with Capita Symonds, this acquisition offers the opportunity to provide a full service proposition across the real estate lifecycle and help public and private organisations to manage their property assets in innovative and efficient ways.

- **Sureterm Direct** – acquired for £8m, Sureterm Direct is a niche personal lines broker primarily offering insurance for classic cars, motorhomes and 4x4s. This acquisition will allow Capita Insurance Distribution to align its classic car insurance business with its other operations, increasing the efficiency of its services to customers.

- **Inventures** – acquired for £6.8m, Inventures is a leading property consultancy focused on the healthcare market. Alongside Capita Symonds services, the acquisition enables us to provide a full service proposition across health and the wider public sector. Its focus on achieving efficient use of clients' property portfolios and releasing surplus accommodation positions the business well in the current fiscal environment.

Operational Update

Businesses across the Group have performed robustly in the continued challenging economic environment. The breadth and nature of our services and our flexible and innovative approach have enabled us to respond well to changing client requirements. Some examples of this are outlined below:

- **India:** Our Indian operations continue to deliver excellent productivity and quality services. Our headcount in India stands at 4,140, an increase of 8% since the beginning of the year. We are now focused on expanding our capabilities in India beyond core administration services. Alongside our offshore IT testing services, we have established an IT services capability with scale and an initial focus on Application services.

- **IT Services:** Our IT Services business continues to expand and deliver a good service to our businesses and contracts as well as directly to clients. We have a growing track record of delivering IT transformations that drive out efficiencies across organisations, particularly across local government. In the education market, our breadth of specialist IT and technology solutions is constantly growing and adapting to the increasing use of technology to support education and training. Notwithstanding the Government's announcement that it is not continuing the Building Schools for the Future programme, our revenues for contracted projects remain secure. We believe there will remain a steady demand for our services as educational establishments continue to embrace technology as a key enabler for learning and education improvement. Additionally, we are working across the Group to draw together ICT, software services, property consultancy and strategic educational consultancy skills and services to develop a comprehensive response to support the Government's emerging new direction for education.

- **Property Consultancy –** Capita Symonds has positioned itself well to weather the reduction in Government spending on infrastructure projects. It is now one of the UK's largest, multifaceted consultancies with an unrivalled scope of services. In particular, it has invested in building its capability in roadside technology that focuses on information, planning and traffic flow control to ensure the most effective use of existing infrastructures. Also, the combination of the services provided by recently acquired NB Real Estate with Capita Symonds' portfolio of services enables us to provide a full service proposition across the real estate lifecycle. This is very valuable not only to commercial organisations but also to central and local government organisations seeking to use workspace more effectively and to manage their property estate more efficiently through consolidation and disposal.

- **Resourcing:** Our Resourcing businesses continue to perform well. With the drive across both the private and public sectors to manage their workforces and recruitment as flexibly and efficiently as possible, we have been successful in extending current and securing new managed services contracts and expanding our remits under existing framework agreements. Our recruitment process outsourcing (RPO) contract with NATS (National Air Traffic Services) to save money through effective resource planning is entering its 7th year. We have extended our existing contract and secured a new 3 year contract (plus a potential 2 years extension) to supply the entire Nuclear Estate with non permanent workers. We are supporting Severn Trent Water through its business transformation and relocation programme. In support of the collaborative procurement agenda across government, the DWP CIPHER contract framework for interim resources has delivered cost savings of £20m since July 2008 and now also engages with an additional 6 central government organisations.

Board changes

We have recently appointed two additional Non-Executive Directors to the Group Board. Dr Nigel Wilson was appointed a Non-Executive Director with effect from 12 May 2010, and became a member of the Nomination, Remuneration and Audit Committees. He became Senior Independent Director on appointment. Nigel is Group Chief Financial Officer of Legal & General Group Plc.

Paul Bowtell was appointed a Non-Executive Director with effect from 28 June 2010 and became a member of the Nomination, Remuneration and Audit Committees on appointment. He will become Chairman of the Audit Committee from 1 August 2010. Paul is Chief Financial Officer of Tui Travel PLC.

Paul and Nigel's appointments add further financial and commercial expertise to the Board and we look forward to their contribution to Capita.

Additionally, after almost 4 years of service, Non-Executive Director Bill Grimsey has decided to stand down from the Board from 31 July 2010. His business acumen has enriched the Board during this period and we would like to thank Bill for his contribution and wish him well with his business and personal interests going forward.

Future prospects

Capita has made good progress in 2010. We have secured new and renewed major contracts worth £523m in the first 6 months of the year and the majority of our businesses across the Group have delivered robust results.

Capita is well placed to continue its growth and is now enjoying a very healthy flow of new business opportunities. There is buoyant demand for outsourcing across both the private and public sectors, with the most active markets in our strong bid pipeline remaining local government and life and pensions. Whilst the current pressures on public spending may potentially affect growth in the short term in a small number of our trading activities, the need for our public sector clients to achieve substantial cost efficiencies offers significant opportunities for the Group going forwards.

Our pipeline of sales prospects, forward visibility of revenues from our long term contracts and consistent operational performance position us well for further progress in 2010 and thereafter.

-Ends-

The Capita Group Plc is the UK's leading provider of BPO and integrated professional support service solutions. With 36,000 people at more than 300 sites, including 59 business centres across the UK, Ireland, the Channel Islands and India, 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 FTSE100 with revenues for 2009 of £2,687m.

Further information on The Capita Group Plc can be found at: http://www.capita.co.uk

Half year condensed consolidated income statement
for the 6 months ended 30 June 2010

				30 June 2010			30 June 2009
	Notes	**Underlying £m**	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Continuing operations:							
Revenue	3	1,361.1	–	1,361.1	1,310.7	–	1,310.7
Cost of sales		971.7	–	971.7	944.0	–	944.0
Gross profit		389.4	–	389.4	366.7	–	366.7
Administrative expenses		211.0	18.2	229.2	207.1	9.9	217.0
Operating profit	3	178.4	(18.2)	160.2	159.6	(9.9)	149.7
Finance costs		(15.3)	(12.5)	(27.8)	(17.9)	3.0	(14.9)
Profit before tax		163.1	(30.7)	132.4	141.7	(6.9)	134.8
Income tax expense		(42.4)	8.2	(34.2)	(38.0)	1.9	(36.1)
Profit for the period		120.7	(22.5)	98.2	103.7	(5.0)	98.7
Attributable to:							
Equity holders of the parent		120.7	(22.5)	98.2	103.7	(5.0)	98.7
Earnings per share	4						
– basic		19.60p	(3.65)p	15.95p	16.92p	(0.81)p	16.11p
– diluted		19.38p	(3.62)p	15.76p	16.74p	(0.80)p	15.94p

Half year condensed consolidated statement of comprehensive income
for the 6 months ended 30 June 2010

	£m	**30 June 2010 £m**	£m	30 June 2009 £m
Profit for the period		98.2		98.7
Other comprehensive income/(expense):				
Actuarial losses on defined benefit pension schemes	(14.8)		(8.3)	
Income tax effect	4.1		2.3	
		(10.7)		(6.0)
Exchange differences on translation of foreign operations		(0.9)		(3.0)
Gains/(Losses) on cash flow hedges	6.6		(23.7)	
Reclassification adjustments for gains included in the income statement	(0.1)		(2.3)	
Income tax effect	(1.8)		7.3	
		4.7		(18.7)
Other comprehensive expense for the period net of tax		(6.9)		(27.7)
Total comprehensive income for the period net of tax		91.3		71.0
Attributable to:				
Equity holders of the parent		91.3		71.0

Half year condensed consolidated balance sheet
at 30 June 2010

	30 June 2010 £m	31 December 2009 £m
Non-current assets		
Property, plant and equipment	256.7	256.6
Intangible assets	1,188.0	1,107.0
Financial assets	279.0	186.3
Trade and other receivables	22.6	20.3
	1,746.3	1,570.2
Current assets		
Financial assets	4.9	2.0
Trade and other receivables	741.4	618.4
Cash	111.8	181.5
	858.1	801.9
Total assets	2,604.4	2,372.1
Current liabilities		
Trade and other payables	901.2	794.5
Financial liabilities	14.5	19.8
Provisions	29.2	27.6
Income tax payable	56.1	37.5
	1,001.0	879.4
Non-current liabilities		
Trade and other payables	10.7	9.0
Financial liabilities	1,106.3	951.3
Provisions	20.4	20.4
Deferred taxation	8.5	13.9
Employee benefits	41.7	31.9
	1,187.6	1,026.5
Total liabilities	2,188.6	1,905.9
Net assets	415.8	466.2
Capital and reserves		
Issued share capital	13.0	12.9
Share premium	451.0	435.2
Employee benefit trust	(0.4)	(0.2)
Capital redemption reserve	1.8	1.8
Foreign currency translation	3.4	4.3
Net unrealised gains reserve	12.5	7.8
Retained earnings	(65.5)	4.4
Equity shareholders' funds	415.8	466.2

Included in aggregate financial liabilities is an amount of £1,059.8m (31 December 2009: £720.5m) which represents the fair value of the Group's bonds which should be considered in conjunction with the aggregate value of currency and interest rate swaps of £228.2m (31 December 2009: £139.9m) included in financial assets and £2.0m (31 December 2009: £0.6m) included in financial liabilities. Consequently, this gives an effective liability of £833.6m (31 December 2009: £581.2m).

Half year condensed consolidated statement of changes in equity
for the 6 months ended 30 June 2010

	Share capital £m	Share premium £m	Employee benefit trust £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Net unrealised gains reserve £m	Total equity £m
At 1 January 2009	12.8	410.4	(0.2)	1.8	(53.0)	6.6	18.5	396.9
Profit for the period	–	–	–	–	98.7	–	–	98.7
Other comprehensive income/(expense)	–	–	–	–	(6.0)	(3.0)	(18.7)	(27.7)
Total comprehensive income/(expense) for the period	–	–	–	–	92.7	(3.0)	(18.7)	71.0
Share based payment	–	–	–	–	5.2	–	–	5.2
Income tax deduction on exercise of share options in excess of share based payments	–	–	–	–	1.1	–	–	1.1
Deferred income tax relating to share based payments	–	–	–	–	(8.0)	–	–	(8.0)
Shares issued	0.1	6.8	–	–	–	–	–	6.9
Share options satisfied from EBT	–	6.6	–	–	–	–	–	6.6
Equity dividends paid	–	–	–	–	(58.8)	–	–	(58.8)
At 30 June 2009	12.9	423.8	(0.2)	1.8	(20.8)	3.6	(0.2)	420.9
At 1 January 2010	12.9	435.2	(0.2)	1.8	4.4	4.3	7.8	466.2
Profit for the period	–	–	–	–	98.2	–	–	98.2
Other comprehensive income/(expense)	–	–	–	–	(10.7)	(0.9)	4.7	(6.9)
Total comprehensive income/(expense) for the period	–	–	–	–	87.5	(0.9)	4.7	91.3
Share based payment	–	–	–	–	4.9	–	–	4.9
Purchase of own shares	–	–	(0.2)	–	(89.3)	–	–	(89.5)
Share transaction costs	–	–	–	–	(0.5)	–	–	(0.5)
Income tax deduction on exercise of share options in excess of share based payments	–	–	–	–	0.7	–	–	0.7
Deferred income tax relating to share based payments	–	–	–	–	(4.1)	–	–	(4.1)
Shares issued	0.1	15.8	–	–	–	–	–	15.9
Equity dividends paid	–	–	–	–	(69.1)	–	–	(69.1)
At 30 June 2010	13.0	451.0	(0.4)	1.8	(65.5)	3.4	12.5	415.8

Half year condensed consolidated cash flow statement
for the 6 months ended 30 June 2010

	Notes	**30 June 2010 £m**	30 June 2009 £m
Cash flows from operating activities			
Operating profit on continuing activities before interest and taxation		160.2	149.7
Depreciation		36.4	27.9
Amortisation of intangible assets		17.0	9.9
Share based payment expense		4.9	5.2
Pension charge		10.7	10.3
Pension contributions		(15.7)	(14.8)
Movement in provisions		0.8	(0.2)
Movement in receivables and payables		2.0	9.8
Cash generated from operations before exceptional additional pension contribution		216.3	197.8
Income tax paid		(23.2)	(20.7)
Exceptional additional pension contribution		–	(40.0)
Net interest paid		(15.3)	(18.7)
Cash generated from operations after income tax, exceptional additional pension contribution and interest		177.8	118.4
Net cash used in investing activities			
Purchase of property, plant and equipment		(38.8)	(35.5)
Proceeds from sale of property, plant and equipment		1.3	–
Investment loan		0.2	3.4
Acquisition of subsidiary undertakings and businesses		(104.6)	(98.6)
Cash acquired with subsidiary undertakings		1.1	0.6
Proceeds on sale of financial assets		–	1.6
		(140.8)	(128.5)
Net cash used in financing activities			
Issue of ordinary share capital		15.7	13.4
Share buybacks		(89.3)	–
Share transaction costs		(0.5)	–
Dividends paid	5	(69.1)	(58.8)
Capital element of finance lease rental payments	7	(0.3)	–
Asset based securitised financing arrangement	7	(5.3)	(1.0)
Instalment debtor movement		6.4	–
Increase in long term debt	7	252.8	–
Repayment of bonds and loan notes	7	(213.0)	(101.1)
Repayment of long term debt	7	(3.4)	–
Repayment of loan notes	7	(0.7)	–
		(106.7)	(147.5)
Net decrease in cash and cash equivalents		(69.7)	(157.6)
Cash and cash equivalents at the beginning of the period		181.5	86.7
Cash and cash equivalents at 30 June		111.8	(70.9)
Cash and cash equivalents comprise:			
Overdraft	7	–	(70.9)
Cash at bank and in hand	7	111.8	–
Total		111.8	(70.9)

Notes to the half year condensed consolidated financial statements
for the 6 months ended 30 June 2010

1 Corporate information

The Capita Group 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 2010 were authorised for issue in accordance with a resolution of the Directors on 21 July 2010.

2 Basis of preparation and accounting policies

(a) Basis of preparation

The half year condensed consolidated financial statements for the 6 months ended 30 June 2010 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services 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 2009, 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 2009 were approved by the Board of Directors on 24 February 2010 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 2010 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

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.

(b) 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 2009, except for the adoption of the new standards and interpretations as of 1 January 2010, noted below.

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

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

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

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

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

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

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

3 Segmental information

Analysis of segment revenue	**6 months to 30 June 2010 £m**	6 months to 30 June 2009 £m
HR Solutions	137.6	138.2
Property Consultancy	146.2	128.2
Insurance Services	89.7	117.3
Investor Services	87.7	80.0
Integrated Services	130.4	172.7
ICT and Partnership Services	305.0	244.0
Life & Pensions	277.3	251.1
Professional Services	187.2	179.2
	1,361.1	1,310.7

Analysis of segment result	**6 months to 30 June 2010 £m**	6 months to 30 June 2009 £m
HR Solutions	13.7	12.8
Property Consultancy	11.8	9.1
Insurance Services	10.3	12.9
Investor Services	18.4	13.9
Integrated Services	21.6	27.2
ICT and Partnership Services	35.9	28.1
Life & Pensions	33.2	26.6
Professional Services	33.5	29.0
	178.4	159.6

The comparative figures have been restated to reflect the changes to divisional structures as reported in the financial statements for the year ended 31 December 2009.

4 Earnings per share

The average number of shares in issue during the period was 615.7m (30 June 2009: 612.8m). The diluted earnings per share have been calculated on the profit for the period of £98.2m (30 June 2009: £98.7m) and an average diluted number of shares of 622.9m (30 June 2009: 619.3m). As at 21 July 2010, there were 608.7m shares in issue.

5 Dividends paid and proposed

The interim dividend of 6.6p (2009: 5.6p) per share (not recognised as a liability at 30 June 2010) will be payable on 12 October 2010 to ordinary shareholders on the register at the close of business on 3 September 2010. The dividend disclosed in the cash flow statement represents the final ordinary dividend of 11.2p (2009: 9.6p) per share as proposed in the 31 December 2009 financial statements and approved at the Group's AGM (not recognised as a liability at 31 December 2009).

6 Business combinations

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

	Book values £m	Fair value adjustments £m	Provisional fair value to Group £m
Intangible assets	0.6	–	0.6
Property, plant and equipment	3.6	–	3.6
Deferred tax	0.5	–	0.5
Debtors	70.0	(0.1)	69.9
Cash and cash equivalents	1.4	–	1.4
Creditors	(65.3)	(0.5)	(65.8)
Finance lease obligations	(0.3)	–	(0.3)
Provisions	(0.7)	–	(0.7)
Long term debt	(0.6)	–	(0.6)
Corporation tax	(1.3)	–	(1.3)
Net assets	7.9	(0.6)	7.3
Goodwill arising on acquisition			94.2
			101.5
Discharged by:			
Cash			101.5

The full exercise to determine the intangible assets acquired is still to be completed, thus the above numbers are provisional; this exercise will be finalised for the full year financial statements. Further cash consideration was paid in respect of previous acquisitions of £3.1m with an equivalent impact on goodwill.

The performance of these acquisitions post their inclusion in the Group cannot be ascertained as they have been fully integrated within existing offerings.

7 Movement in net debt

	Net debt at 1 January 2010 £m	Acquisitions in 2010 £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 30 June 2010 £m
Cash and cash equivalents	181.5	–	(69.7)	–	111.8
Loan notes	(2.6)	–	0.7	–	(1.9)
Bonds*	(720.5)	–	(252.8)	(86.5)	(1,059.8)
Term debt	(198.0)	–	200.0	(2.0)	–
Factored debt acquired	–	(13.0)	13.0	–	–
Currency swaps in relation to US $ denominated bonds*	136.0	–	–	85.2	221.2
Interest rate swaps in relation to GBP denominated bonds*	3.3	–	–	1.6	4.9
Long term debt	(2.8)	(0.6)	3.4	–	–
Finance leases	(1.4)	(0.3)	0.3	(0.4)	(1.8)
Sub-total net debt	(604.5)	(13.9)	(105.1)	(2.1)	(725.6)
Callable swaps	(30.9)	–	–	(12.5)	(43.4)
Asset based securitised finance	(17.1)	–	5.3	–	(11.8)
	(652.5)	(13.9)	(99.8)	(14.6)	(780.8)

	Net debt at 1 January 2009 £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 30 June 2009 £m
Cash and cash equivalents	86.7	(86.7)	–	–
Overdrafts	–	(70.9)	–	(70.9)
Cash	86.7	(157.6)	–	(70.9)
Loan notes	(3.7)	0.8	–	(2.9)
Bonds*	(953.1)	100.3	141.5	(711.3)
Currency swaps in relation to US $ denominated bonds*	269.6	–	(140.1)	129.5
Interest rate swaps in relation to GBP denominated bonds*	4.7	–	(1.5)	3.2
Sub-total net debt	(595.8)	(56.5)	(0.1)	(652.4)
Callable swaps	(32.0)	–	3.0	(29.0)
Asset based securitised finance	(10.4)	(4.7)	–	(15.1)
	(638.2)	(61.2)	2.9	(696.5)

The aggregate bond fair value above of £1,059.8m (30 June 2009: £711.3m) includes the GBP value of the US$ denominated bonds at 30 June 2010 (30 June 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 sum of these items held at fair value equates to the underlying value of the Group's bond debt of £833.6m (30 June 2009: £578.6m).

8 Capital commitments

At 30 June 2010, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £8.2m (2009: £nil).

9 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. The only related party transactions requiring disclosure are details of key management personnel compensation (including Directors of the parent company). These details are set out in the table below.

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

	6 months 30 June 2010 £m	6 months 30 June 2009 £m
Short term employment benefits	1.2	1.2
Post employment benefits	0.1	0.1
Share based payments	2.8	2.2
	4.1	3.5

Gains on share options exercised in the period by key management personnel totalled £4.7m (2009: £3.8m).

10 Update on Arch Cru provision

The Group continues to work with its professional advisors and the relevant regulatory authority to resolve this matter. The exercise to determine whether investors have suffered any detriment and if so to what extent any of the parties involved should be responsible for compensating them is still ongoing. The Group has not set aside any further provision in the period above that made in the 2009 year end financial statements.

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 Services Authority.

The names and functions of the Directors of The Capita Group Plc are as listed in the Group's Annual Report for 2009. A list of current Directors is maintained on the Group website: www.capita.co.uk.

By order of the Board

P R M Pindar	G M Hurst
Chief Executive	Group Finance Director

21 July 2010