CAPITA

THE CAPITA GROUP PLC

REPORT AND ACCOUNTS

1996

Group statement

The Capita Group provides professional support services to the public and private sectors through its Business Services and Property Services divisions.

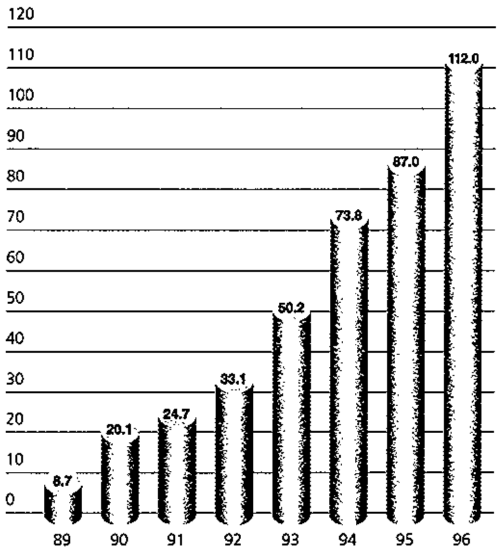
The Group concentrates on creating value for both customers and shareholders.

To achieve this, it seeks to:

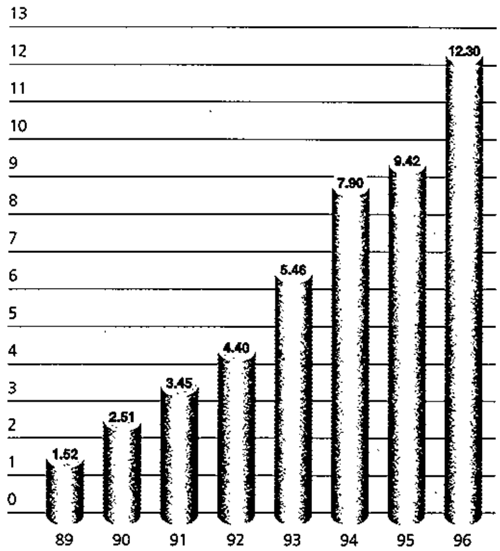
- Display a professional attitude to customers and their needs
- Provide services of quality and creativity
- Create an environment where excellence and opportunity prevail
- Encourage an open management style
- Generate strong cashflows and good margins

Record as a public company

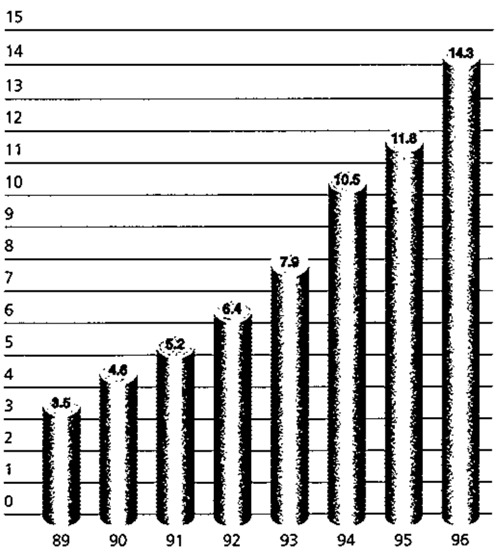
Turnover £m



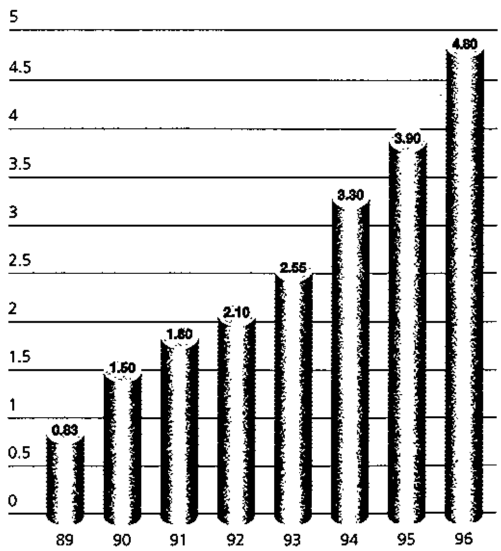
Profit before tax £m



Earnings per share pence



Dividends per share pence



Over a Decade in Business

1984	• Capita formed within the Chartered Institute of Public Finance & Accountancy
1989	• USM flotation, valued at £8m
1990	• Winner of "Best New Company" Award
1991	• Winner of 1990 USM Company of the Year Award • Full listing as a public company on The London Stock Exchange
1992	• Acquisition of Estate Design & Management • Award of first-ever managed service contract for local authority revenues function from East Cambridgeshire District Council • Inclusion in FT-SE A All Share Index
1993	• Award of largest-ever managed service contract for exchequer functions from London Borough of Bromley • Award of largest revenues contract in local government from Westminster City Council
1994	• Acquisition of Sims Holdings Limited • Acquisition of Beard Dove Limited • Award of Charter Mark for revenues contract run for East Cambridgeshire DC (first private sector company to achieve this award) • Formation of Academy Information Systems providing software solutions to local government
1995	• Award of largest ever contract for the introduction of the written driving test by the Driving Standards Agency • Award of first managed service contract in Health by St Mary's Hospital Trust in the Isle of Wight
1996	• Award of largest-ever contract to manage the Teachers Pension Agency in Darlington • Acquisition of Recruitment and Assessment Service from HM Government • Award of Charter Mark for revenues service run for the Borough of Broxbourne

Group Structure

The Capita Group Plc is one of the fastest growing professional service organisations in the UK. Our sustained growth over many years reflects the ability of our professionals to stay relevant to the needs of our clients. We operate as a single entity, providing customers with access to a wide range of skills designed to help them continually challenge and improve the performance of their organisation. The diversity of the Group spans both front and back office, the management of information technology and the management of infrastructure assets.

While our core business is the provision of complete outsourced solutions, we offer clients a range of other services according to their needs. Our competitive edge derives from:

- a comprehensive and flexible offering that is unique against our competitors;
- the strength and diversity of our service capability through the support of consultancy and property specialists;
- innovation and flexibility in the methods and concepts that combine to provide effective and relevant solutions.

All these aspects are now channelled to the market in a structured fashion that is recognised by our customers:

We focus on supporting business processes. We have the capability to fully manage a complex range of integrated services. Our clients have the confidence to trust us to be the sole interface with their individual customers. We share in success, we carry a share of the risk and we not only meet but exceed challenging performance targets. Our aim is to make our clients even more successful.

Business Services Division

The nature of outsourcing continues to change as customers seek a more integrated approach to business support services. Capita's ability to provide a broad-based solution from diverse service offerings has enabled us to demonstrate our capability into different markets and work more strategically with clients.

This shift led Capita, during 1996, to review our services in the light of previous achievements and based on client feedback. We have shaped our whole service solution in the concept of the wheel shown on page 3.

Customers sit firmly at the centre of the wheel, surrounded by a range of relevant service offerings to support their business. The principle is flexibility: finding a solution tailored to individual needs and which improves business performance.

Using this model in 1996, we worked closely with clients to decide on the right mix of consultancy, IT or operational support. This co-operative partnership has brought greater business benefits to our clients from Capita's combined resources.The impact on both our delivery and sales objectives has already been considerable.

To deliver a whole service solution in 1997 and beyond, we have combined the Outsourcing and Advisory Divisions into a single unit – Capita Business Services. The move brings together an accumulation of experience, skill and geographic coverage with a whole service capability that encompasses over 3,000 people, a network of 50 sites and 14 key business centres.

Pursuing the theme of change this year we have drawn together achievements in 1996 where Capita has delivered added value to customers through the effective integration of Group resources – bringing the wheel to life.

"IT is not our main activity so it makes sense to outsource. We have access to greater expertise than is available in-house, and Capita is able to respond more quickly to new technology developments than we can on our own."

Society of Motor Manufacturers and Traders

Review

Education

Implementing a new large-scale initiative presents a challenge to client and supplier alike. During 1996, Capita successfully introduced Phase I of the Nursery Education Voucher Scheme on behalf of the Department for Education and Employment (DfEE) trialled by 20,000 children in four local education authorities in England and Scotland. It required a whole service solution encompassing call centre operations, design and distribution of multi-lingual information, voucher processing and technology development all delivered from within the company. Following the success of Phase I, Capita was awarded the contract to implement the nursery voucher scheme nationwide. To service an estimated 1.5 million applications per annum, we have set up a network of three regional sites to handle customer enquiries and voucher administration. A key resource in this has been Capita's North East business centre, also responsible for the administration of the Teachers' Superannuation Scheme.

Capita's software specialist – Sims Ltd, which is the UK's leading provider of education management systems, has helped its customers to use financial and pupil information to manage school improvement. 1996 has seen some 20,000 schools, 125 local authorities and 110 further education colleges supported by Sims software. Northern Ireland is one area where Sims offers a total solution, working with all five Education and Library Boards to provide systems to over 800 schools in the province. Celebrating its tenth anniversary in 1996, Sims launched a suite of Windows software modules and education management products which are supporting many of the emerging unitary authorities. To help school heads explore key educational policy issues, Sims has expanded its programme of training services at Sims centres and on-site at schools across the country.

"There can be few companies that have to face such difficult decisions about the path to follow and few that have to cope with so many externally imposed changes and yet, they have 'delivered'. To SIMS I say that I think '2000' is superb. . ."

IT Manager
Bicester Community College

Business Services Division

Government

In October, Capita acquired Recruitment and Assessment Services Ltd (RAS) from the Cabinet Office. Combining RAS's 120 highly skilled professionals with Capita's existing interim and permanent recruitment services, the Group now handles around 12% of all central government recruitment. It has enabled Capita to offer clients across education, health, public services organisations and utilities a full service encompassing director and management appointments, administrative level recruitment, assessment, interim specialists and human resources consultancy and training.

Another success of 1996 was the introduction of the written theory driving test, launched at the beginning of July by DriveSafe Services Ltd, now a 100% owned subsidiary of Capita. In the six months from the contract being awarded by the Driving Standards Agency (DSA), DriveSafe set up 160 test centres, recruited over 700 staff and established a Coventry-based administration centre capable of processing an estimated 1.5 million theory tests per year. DriveSafe is currently responding to 150,000 customers each month and handling some £23 million of payments a year for both the DSA and Driver Vehicle Testing Agency. High service levels have been met through a strongly focused customer service, staff training and a significant investment in bespoke information systems.

In local government, a strong consultancy background in housing, finance and IT enabled Capita to review and manage the introduction of an integrated computer housing system for the London Borough of Southwark. Our track record in delivering improved quality services and significant cost savings earned Capita a contract extension with the London Borough of Bromley to the year 2002 for an integrated IT and revenues service. Also this year, new partnership contracts were won with West Devon District Council and the London Borough of Hounslow. In October 1996, the Borough of Broxbourne was awarded a Charter Mark for its revenues service provided by Capita. We are the only outsourcing company to have achieved this accolade twice for its customers. Capita's breadth of service has enabled it to help clients tackle the public sector issues of the day such as improving performance, private finance and managing change. Over 2,000 people shared in Capita's accumulated experience through a programme of 40 training events covering a range of public sector finance, housing and policy issues.

"With Capita we have a true partnership based on mutual trust and a shared vision – the satisfaction of our customers."

London Borough of Bexley

During 1996, Academy Information Systems continued its market-leading position as one of the largest suppliers of software to local government. Its innovative Windows-based systems in revenues and housing management have supported a range of local authorities including new unitary authorities like Peterborough City Council and Poole Borough Council. Academy's integrated housing system now supports the management of over 300,000 properties and administers repair and maintenance of over £35 million each year. Academy's new generation of software has attracted a great deal of interest as councils prepare for the tendering of services.

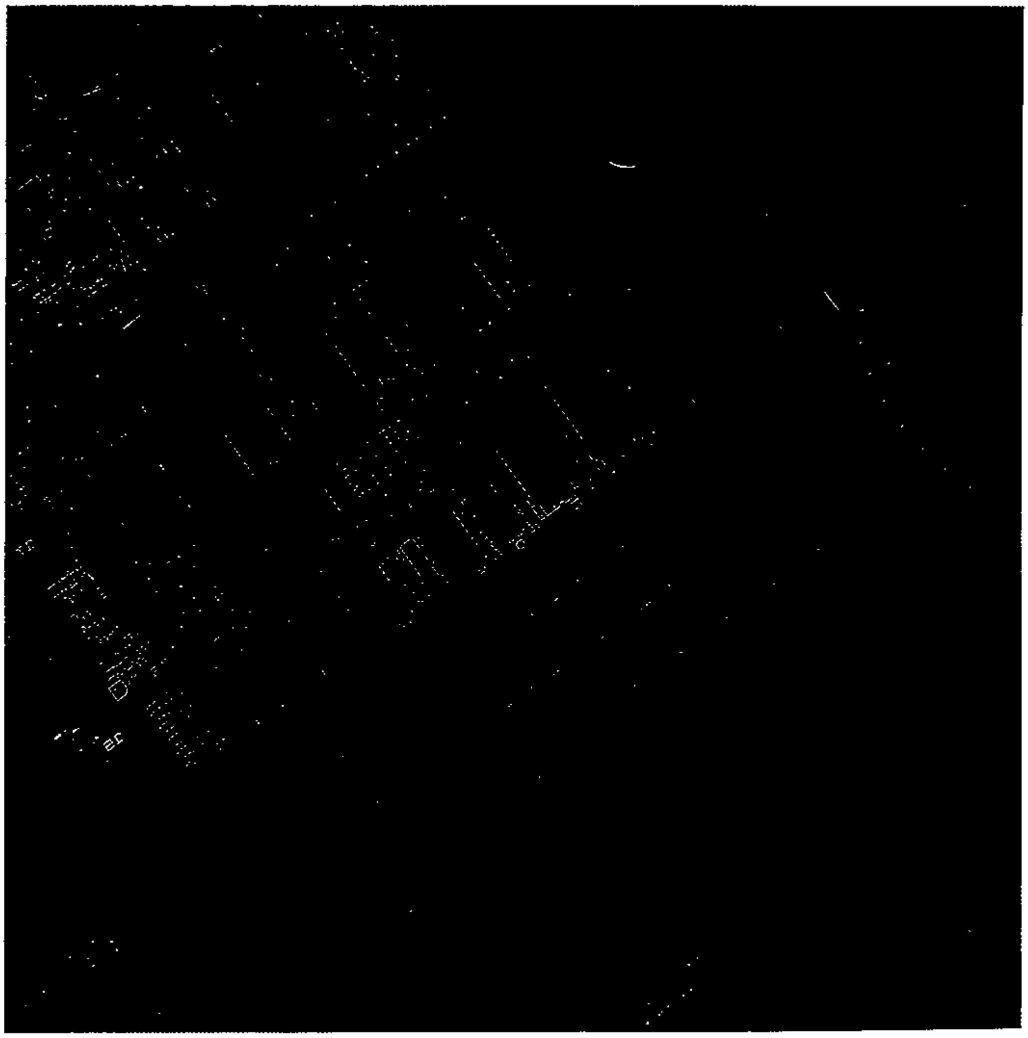
"The ease of use of the system, Academy's understanding of revenues and benefits and its pedigree were the factors that finally told in the Company's favour."

David Baggalley
Head of Management Services
Mid Sussex District Council

Health

The government's White Paper, Competing for Quality, strongly encouraged private sector expertise and innovation in service provision across the public sector. In 1996, Capita joined forces with two hospital trusts on the Isle of Wight to form a new venture – The Chalice Group Ltd – which now provides a full range of non-clinical support services on the island. The partnership is one of the first of its kind in the national health service. Chalice has already begun to support other customers on the Isle of Wight with services ranging from estate management to administrative support. In October, the island's largest social housing provider, Medina Housing Association, awarded Chalice the contract to provide a 24-hour maintenance service covering some 1,800 properties.

Capita's involvement with hospitals, health authorities and agencies has required a more integrated solution. In addition to managing key support services in the health sector, Capita has further strengthened its position as a leading supplier of interim management services. For a number of clients, the ability to call in specialist support for relatively short periods has complemented the strategic consultancy work which Capita has undertaken in the health sector. The additional resources at RAS will now assist our experienced healthcare team to offer a fully comprehensive permanent and interim recruitment service combined with high quality candidate assessment consultancy. During 1996, consultancy expertise was shared with some 1,500 NHS managers and health professionals who attended Capita's training events on key health sector issues.



"I have always felt that Capita carries a personal touch and did not purely try and place me as soon as possible. Communication and project briefing were excellent throughout the recruitment process."

Alan Turk
Investment Project Accountant
British Gas Service

Commercial sector and utilities

Bringing new business benefits to clients throughout a working partnership is fundamental. Since assuming the management of automotive data services for the Society of Motor Manufacturers and Traders (SMMT) in November 1995, Capita has looked for ways to develop a more responsive service. Following months of IT development, market research and communications activity, Capita supported SMMT in the launch of WinScreen Reporting – a new on-line market analysis tool. In a continuing development programme, Capita has been trialling the use of new technology – in particular CD-Rom – as a quicker and more secure way of providing large amounts of information to SMMT's members.

Capita has continued to develop its partnerships with utilities. The venture with Yorkshire Water has consistently exceeded its targets to deliver a range of customer services in the North. The proposed de-regulation of the gas industry has enabled Capita to work with emerging suppliers such as Eastern Natural Gas (ENG) to develop its profile in the local community and create greater understanding of its competitive offer through a wide-ranging programme of youth rugby sponsorship in the South West and the launch of ENG in two new regions.

Through a unique joint venture company with OAO, Capita has developed a second-tier outsourcing service, managing IT capabilities for several international blue-chip companies. The service aims at enabling clients – first level outsourcing companies – to focus on managing their customer relationship and achieve competitive advantage through services delivered cost-effectively by a third party. The venture has now assumed the responsibility for data centre operations in one additional location in the UK.

Aiding the greater consumer awareness of ENG's competitive offer via a wide-ranging community sponsorship programme.

International

Governments across the world have driven the need for professional customer-focused public services. Capita, through its international consultancy and training services, has worked in partnership with the UK government, European Commission, World Bank and several overseas governments on improving public administration. Economic development and the need to support emerging market economies is an area where Capita's expertise is increasingly in demand. Projects in 1996 have seen our consultants developing private sector support and export strategies in Lithuania, advising on self-sustaining business support in Hungary and on contracting out opportunities in Zimbabwe.

Across Zimbabwe, Botswana and South Africa, Capita has supported many of the big six management consultancies by providing specialists to implement a variety of IT, public administration and private sector development projects.

In 1996 Capita's UK-based open training programme on public administration has supported some 200 people from over 40 countries in Europe, Asia, Africa and South America.

"Most of us will have had an experience where we would confess a consultant's engagement has not necessarily lived up to our expectations. Our project does not fall into that category. . . A successful outcome looks assured . . . I would unreservedly recommend Capita for any consultancy work. . ."

John Ord
Head of Facilities
Rampton Hospital Authority

Future

Capita Business Services offers customers a partnership which solves business problems by building a service around clients' strategic needs from a broad capability of consultancy, IT, process and people-driven services – a whole service solution.

Two contracts in particular have demonstrated Capita's move towards broader business process management – the implementation of the government's nursery education voucher scheme and the written theory driving test for the Driving Standards Agency. Both highlight the breadth of Capita's services beyond IT and financial managed services to a range of multi-disciplinary tasks.

There are many challenges ahead for clients and service providers alike. From a strong reputation of delivering value-added services, Capita Business Services has a firm base from which to lead the shift towards whole service outsourcing solutions. By re-shaping Capita to meet the needs of a growing and more sophisticated marketplace, we are ideally placed to grow towards our goal of becoming the UK's leading business services provider.

Property Services Division

"I am prompted to write to express my appreciation of the quality of the information made available to myself and my staff. The response in terms of speed and accuracy for financial information has been exemplary. . . I look forward to a continued professional relationship."

B Jenson
Project Construction Manager
Thames Water Utilities

The Division has continued to grow with record turnover and profitability and a healthy demand for all services. Over 500 highly trained and professional staff operate from strategically placed UK offices, with international offices in Prague and Kuala Lumpur.

Greatorex, with a reputation for innovative design solutions, provides the full range of building engineering services. The company has flourished in 1996 with increased staffing levels, turnover and profit.

Beard Dove provides core services of commercial management, project management and building surveying. Additional services include risk, value and facilities management, PFI guidance and planning supervisor and planned maintenance advice.

EDM provides the key services of architecture and interior design and has been particularly successful in the remand and healthcare sectors. EDM have diversified into health and safety, space planning and PFI advice services.

Estatecare Group, the largest multi-disciplinary construction consultancy in Wales, joined the Division in 1996. Gold medals for architecture and other prestigious awards testify to the success of its co-ordinated multi-disciplinary design approach.

Review

Transportation assignments are prospering with further significant commissions having been obtained with Railtrack and an increased demand for services on prestigious projects such as the Jubilee Line Extension and Paddington Station redevelopment. Commissions at Moldova and St Petersburg airports are expected to be matched by further airport appointments in 1997.

Royal Pump Rooms at Leamington Spa. EDM are revitalising this Grade II listed building with a new library, museum, art gallery and café.

Healthcare continues to make a significant contribution to turnover. Success in this competitive environment was demonstrated by our recent success in securing the major commission to redevelop the University Hospital of Wales.

Retail commissions won included work with major clients such as Marks & Spencer, Moss Bros, BHS, Burtons, GAP and Abbey National.

Government appointments include the management of the demolition of the DoE's Marsham Street offices, Europe's largest demolition project. Further work includes advice to the Child Support Agency and appointments from the Home Office.

A major industrial project for Bass Brewers was completed on budget and on programme. Work is progressing on Europe's largest waste to energy plant for Thames Water in East London. Fire insurance valuation commissions included the Rolls Royce factories at Bristol and Coventry.

Design is proceeding on new leisure facilities as part of the restoration of Leamington Spa's historic Royal Pump Rooms. Further appointments were received from Granada, Bass Leisure and No Ordinary Hotels.

Education continues to generate a range of commissions including four teaching blocks at Southampton University and a lecture theatre at Oxford University.

The commercial client base is expanding with appointments from British Telecom, Courtaulds, Motorola, Visa, SmithKline Beecham, Glaxo and NEC. Work continues at RNAS Culdrose for Lockheed Martin.

"There have been very few projects of this size in the NHS that can boast that they have opened a month early and within the overall approved sum. This is a great credit to everybody who worked on the scheme."

N A Fox, Director of Planning and Contracting
Saint Richard's Hospital

Future

Following a year of record growth and profitability, the Division is well positioned to grow further, especially in an economic climate that is signalling greater activity in the construction market. There is a confidence that the Division will enhance further its reputation as a leading supplier of high quality professional services to the construction and property sectors.

The Capita Group Board

Rod Aldridge
OBE (Chairman & Chief Executive) is responsible for the Group strategy and development. He spent 10 years in local government before joining the Chartered Institute of Public Finance and Accountancy (CIPFA) in 1974. In 1984 he became Managing Director of CIPFA Computer Services which subsequently became the Capita Group following a buy-out in 1987. He is a qualified member of CIPFA.

Paul Pindar
(Group Managing Director) joined the Group in 1987 from 3i. He was adviser to Capita on its management buy-out. He qualified as a chartered accountant with Coopers & Lybrand in 1984 and is an associate member of the Institute of Taxation. He was appointed Managing Director in 1991.

Derek Fowler
CBE (Non-Executive Deputy Chairman) joined the Group in 1989 and was appointed Deputy Chairman in January 1991. He is also a non-executive director of Kier Group Plc and Vice Chairman of Papworth Hospital NHS Trust. A chartered certified accountant, Mr Fowler is Chairman of Capita's Remuneration Committee.

Robert Alcock
(Non-Executive Director) joined the Group in November 1993. A chartered accountant, he was until May 1996 Group Managing Director of Norcros Plc and is now Executive Director of Anglo-Overseas Trust. Before joining Norcros, he was Group Finance Director of Nabisco UK, prior to which he was Chief Finance Officer and Senior Vice-President of Black & Decker. Mr Alcock is Chairman of Capita's Audit Committee.

Gordon Hurst
(Group Finance Director) joined the Group in January 1988 from Sun Micro Systems Ltd. He became Company Secretary in January 1990 and was appointed to the Board as Commercial Director in February 1995. He qualified as a chartered accountant with Coopers & Lybrand in 1986.

Paddy Doyle
(Group Director, Business Services) joined Capita in 1992 from the Hoskyns Group. He was appointed to the Board in July 1994 to take responsibility for the Outsourcing Division.

Richard Benton
(Group Business Development Director – Managed Services) joined Capita in 1984 from the London Transport Executive, where he qualified as a member of the Chartered Institute of Management Accountants. He was appointed sales director in 1985 and was part of the management buy-out team. He has responsibility for major business development opportunities.

Colin Welsh
(Group Business Development Director – Services) was appointed to the Board in February 1995. A Fellow of the Chartered Institute of Management Accountants, he joined Capita Management Consultancy in 1992 and was made Managing Director in 1993. He has worked previously for Touche Ross Management Consultants and HM Treasury.

Chairman's Statement

Results

During 1996, Capita has strengthened materially its position as a market leading provider of outsourcing and other professional support services to the public and private sectors. Once again, the company has achieved record profits and the opportunities for continued growth remain considerable.

In the 12 months to 31st December 1996, Group turnover increased 29% to £112m (31st December 1995: £87m) and net profits before tax rose 31% to £12.3m (£9.4m). Earnings per share grew by 21% to 14.3p (11.8p).

Dividends

Your Board is recommending a final dividend of 3.2p net per ordinary share making a total for the year of 4.8p net (3.9p net). This represents a 23% increase on the dividends paid in respect of the 1995 financial year. The total dividend is covered 3 times by the earnings per ordinary share for the year. The final dividend will be payable on 29th April 1997 to ordinary shareholders on the register at the close of business on 21st March 1997.

Bonus Issue

The Board is recommending to shareholders a bonus issue of two ordinary shares of 2p each for every one share held by shareholders at the close of business on 15th April 1997. If approved by shareholders at the AGM on 15th April, the ordinary shares comprising the bonus issue will be allotted on 16th April 1997.

The Board believes that the proposed bonus issue will benefit shareholders by enhancing the marketability of shares in Capita.

Balance Sheet and Cash Flow

The Board attaches significant importance to maintaining a strong and conservatively financed balance sheet. We believe this is appropriate given the substantial contractual opportunities we are currently pursuing to develop our business. At 31st December 1996, net assets increased to £11.2m (£9.5m). Cash balances increased to £16.4m (£10.6m).

Operating cash flow from trading activities was £16.0m (£7.9m), thus enabling the Group to invest £4.2m in capital expenditure and £1.8m in the cash element of acquisitions. The Group continues to focus on the strong management of its working capital.

Outsourcing Services

The Division provides, on long term contracts, a range of white collar services designed to help clients enhance their customer services and to improve value for money. These include the running of IT and revenue services, the management of multi-disciplinary outsourced functions and the provision of specialist licensed software products.

The Outsourcing Division has performed superbly during 1996. Turnover advanced by 37% to £78.5m (£57.3m) and profits by 43% to £8.53m (£5.97m).

Chairman's Statement

During 1996, the Group implemented several significant contracts. On 1st July, DriveSafe Services Limited, a joint venture with the JHP Group, assumed responsibility for the delivery of the Theory Driving Test from its Call Centre in Coventry and 162 Test Centres throughout the UK. The operation was set up in 24 weeks and has now delivered over 800,000 tests. In October, the Driving Standards Agency raised the pass-mark for the test which has consequently increased the volume of candidates. This contract is estimated to generate revenues of £70m over 5 years.

The Group's two contracts on the Isle of Wight to provide support services for St. Mary's Hospital NHS Trust and the Community Healthcare NHS Trust have started well. There is potential to develop further work on the island. This contract is worth between £25m and £35m over 5 to 7 years.

"The confidence of organisations to outsource complex operations has increased substantially over the last 18 months. This factor, coupled with budgetary pressures and an increasing need to remain competitive, will ensure that this trend will continue. There is hard evidence of our ability to deliver contracts at both lower cost and ahead of agreed service standards."

On 1st October 1996, we acquired Recruitment & Assessment Services (RAS) from Her Majesty's Government. RAS was the Government Agency tasked with recruiting personnel into the Civil Service. Capita is now responsible for recruiting 12% of all Civil Servants and has a 5 year contract to administer the high profile, fast stream scheme.

In October, we started a 7 year contract worth £72m to administer the Teachers' Superannuation Scheme in Darlington on behalf of Her Majesty's Government. The transfer of responsibility has been well managed with no disruption to services. The business opportunities in pensions administration in both the public and private sectors look considerable.

It was also announced in October that we had secured a 3 year contract worth £15m from the Department for Education and Employment to distribute Nursery Vouchers to the parents of 4 year-olds throughout the country. This will involve the distribution of vouchers to 700,000 homes in the UK. Our Call Centre in Darlington is currently handling 10,000 enquiries a week about the scheme.

On Friday 21st February 1997, it was announced that we had acquired 100% control of DriveSafe Services Limited by buying the shares held by JHP Group. DriveSafe has considerable expertise in call centre technology and data scanning and an infrastructure of sites across the country. This acquisition will accelerate our ability to develop DriveSafe and to enhance its services through access to Capita's other call centre activities and complementary customer management skills for the benefit of the Driving Standards Agency, other existing clients and prospective customers.

On the same day, we announced the acquisition of Hartshead Solway Limited, one of the UK's largest independent pensions administrators. Hartshead Solway provides pensions administration services to 7 of the 10 water companies including Yorkshire, Hyder, United Utilities, Northumbrian, Severn Trent, Anglian, Southern and also to the Environment Agency. The company has over 100 private and public sector customers including Black & Decker, Powell Duffryn and the Graham Group. Hartshead Solway also administers the Motor Industry Pension Scheme and the Shipbuilding Industries Pension Scheme. Measured in terms of lives under management, this acquisition, when coupled with our responsibility for the administration of the Teachers' Superannuation Scheme, positions Capita as the UK's market leader in pensions administration. This strategic move also increases Capita's private sector business and provides us with a strong platform to develop opportunities with these customers and to build our payroll and pensions services in both the public and private sectors.

Today, the Board is pleased to announce that we have secured an eight year extension to our contract at Mendip District Council for the provision of a complete range of financial services. We also have a recommended four year extension with Wiltshire County Council for the provision of IT services and a three year extension to our contract with Kent County Council, also for IT services. These contract extensions will be worth £32m. As a consequence, the Group has no contract expiring in 1997 and has already extended the majority of the contracts due to be renegotiated in 1998.

The confidence of organisations to outsource complex operations has increased substantially over the last 18 months. This factor, coupled with budgetary pressures and an increasing need to remain competitive, will ensure that this trend will continue. There is hard evidence of our ability to deliver contracts at both lower cost and ahead of agreed service standards.

Simultaneously, the barriers to entry for new competitors are increasing with regard to both the skills and the infrastructure necessary to bid for and operate contracts. The Group's track record includes responsibility for the collection of £6bn of monies on behalf of customers, dealing with 4m taxpayers, processing 7m forms and supporting 20,000 computer terminals on a network to 1,200 organisations throughout the country. Capita is also responsible for administering the pay and pensions of 1.8m people. Our ten Business Centres provide the capacity to cope with further growth from within the existing infrastructure.

We currently enjoy a strong prospect list of well qualified sales opportunities, the average size of which has increased markedly. These cover central government, local government and the private sector, including utilities. We hope to provide news of the outcome of these bids in the coming months.

Our two software companies, Sims and Academy, which are focused upon the education and local government markets respectively, have both performed well during 1996. Both businesses released a new series of software products during the year which have assumed market leading positions. This is anticipated to provide good growth for our software activities during 1997. Academy will benefit from the complementary cash receipting and income management systems marketed by the revenues division of Imasys which Capita acquired this month and which has some 200 systems installed in revenue collection departments of local authorities.

Equitable Revenue Holdings, an associated company of Capita, has enjoyed an excellent year. It continues to strengthen further its position as the UK's leading bailiff and debt recovery company serving the public sector. These activities very much support the Group in its leading position in revenue management services to local government. Since the half year, we have increased our shareholding in Equitable Holdings from 38% to 46%.

"The Group's track record includes responsibility for the collection of £6bn of monies on behalf of customers, dealing with 4m taxpayers, processing 7m forms and supporting 20,000 computer terminals \on a network to 1,200 organisations throughout the country. Capita is also responsible for administering the pay and pensions of 1.8m people."

Property Services

The Division provides a comprehensive, one-stop service involving project management, architectural services and consulting engineering to both the public and private sectors for all aspects of a client's estate and property portfolio.

The Property Services Division has continued to grow during 1996 with a healthy demand for its professional services. Turnover increased by 11% to £22.6m (£20.4m) and profits by 12% to £2.74m (£2.44m). The companies within the Division work for many sought after and high spending client organisations in the United Kingdom. 1996 has seen an increasing tendency for customers to seek a single point of responsibility in the appointment of their professional advisers. The Property Services Division is well placed to offer this.

In transportation, further commissions have been obtained with both Railtrack and the recently formed train operating companies. The health sector continues to make a significant contribution and prestigious contracts have been won with the University Hospital of Wales and the Glaxo pharmacy at Kings Healthcare Trust. Retail has seen commissions with Moss Bros., British Home Stores and Abbey National, whilst in the leisure and hotel sector, we have commissions with Granada and Bass Leisure. Finally, within the education sector, major refurbishments have been won for the Universities of Oxford, Southampton and Warwick. The Division has also assisted with a number of the Group's outsourcing contracts, a trend which will continue.

Advisory Services

The Division provides business advisory services designed to assist clients to improve performance and to provide services in a more cost effective manner. These include management consultancy, placement services and training.

Although turnover increased by 16% to £10.8m (£9.3m), profits advanced only marginally to £1.02m (£1.01m). Significant growth in UK consultancy, recruitment and training was offset by a poor performance in our international consultancy activities. We have cut operating overheads substantially in this area since the year end.

During 1996, the Division won repeat business from long term public sector clients such as the MOD, the Foreign & Commonwealth Office, the Prison Service and numerous local authorities and NHS Trusts. Further penetration was also achieved in the private sector with utilities such as Eastern Natural Gas and in the financial services sector with Guardian Royal Exchange.

"Capita enters 1997 with confidence. The Board remains committed to its strategy of providing high added value support services to the public and private sectors and the market for these services continues to grow strongly. The Group is pursuing a record number of new business opportunities and the Board views 1997 and beyond with considerable optimism."

Divisional Structure

Both Capita's own business and the marketplace for our services have developed strongly during 1996 and there has been a marked increase in the size and diversity of contracts for which we can bid.

In order to meet the requirements of the external market and to maximise the considerable range of skills of the staff we have within Capita, we have, for some time, encouraged close working relationships between the businesses in the Advisory and Outsourcing Divisions. Increasingly, for example, consultancy and training skills are requirements in major outsourcing bids.

We have now decided to take this progression one stage further and with effect from 1st January 1997, we have integrated the Advisory Division into the Outsourcing Division to form a new Business Services Division, under the leadership of Paddy Doyle, presently the Group Director responsible for the Outsourcing Division. We believe this structure will both improve our offering to the market place and further differentiate Capita from its competitors.

Employees

The principal reason for Capita's success is the quality, commitment and professionalism of its people. We continue to invest in developing our staff throughout the Group and consequently we are well positioned to control further growth. We have substantial talent at all levels of the Group. The Board would like to offer its sincere thanks for the contribution our employees have made during the year.

Share Option Scheme

At Capita's flotation in April 1989, an executive share option scheme was introduced which has proven to be highly effective in attracting, retaining and motivating senior personnel throughout the Group.

The original scheme is now approaching its ninth year and the number of options remaining available to grant to staff is low. However, in the current business climate, where there is strong demand for exceptional personnel, the opportunity to participate in a share option scheme remains an essential part of the package we can offer to current and potential employees. Accordingly, it is the Board's intention to present to shareholders at the Group's AGM a resolution to approve a new scheme to apply from April 1997 to April 2007.

Prospects

Capita enters 1997 with confidence. The Board remains committed to its strategy of providing high added value support services to the public and private sectors and the market for these services continues to grow strongly. The Group is pursuing a record number of new business opportunities and the Board views 1997 and beyond with considerable optimism.

R. M. Aldridge, OBE
Chairman & Chief Executive
24th February, 1997

Notes to the Notice of Annual General Meeting

(1) Further information on Resolutions 7 & 8 is contained in the attached Explanatory Notes.

(2) By virtue of Section 80 of the Companies Act 1985 ("Act") the Directors require the authority of the shareholders of the Company to allot shares or other relevant securities in the Company. The Resolution numbered 8(B) authorises the allotment of shares pursuant to the capitalisation issue. The Resolution numbered 9 authorises the Directors to make allotments of up to an additional 64,038,300 shares (representing approximately 35% of the issued share capital of the Company immediately following the capitalisation issue). The Directors have no present intention of exercising the authority proposed to be conferred pursuant to Resolution 9.

(3) By virtue of Section 89 of the Act any issue by the Company of equity capital for cash made otherwise than to existing shareholders on a proportional basis requires the consent of the shareholders of the Company unless the Company has obtained the authority of the shareholders under Section 95 of the Act. The Resolution numbered 10 is for that purpose. It authorises the Directors to allot shares by way of rights or pursuant to an open offer otherwise than strictly pro rata when the Directors consider that it is expedient to do so and allows them to issue for cash up to 9,163,200 shares other than on a pre-emptive basis (representing approximately 5% of the issued share capital of the Company immediately following the capitalisation issue).

(4) Copies of all of the following documents will be available for inspection at the registered office of the Company during usual business hours (Saturdays excepted) until 15th April, 1997 and will also be available 15 minutes prior to and during the Annual General Meeting ("AGM"):

(i) Copies of all contracts of service whereunder Directors of the Company are employed by the Company or any subsidiary.

(ii) Memorandum and Articles of Association of the Company.

(iii) Copies of the audited consolidated accounts of the Company and its subsidiaries for the last two financial years.

(5) Any member of the Company entitled to attend and vote at the AGM may appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.

(6) A form of proxy is enclosed for use by shareholders and if appropriate, must be deposited at the Company's registrars, (Independent Registrars Group, Registration and New Issues Department, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU) not less than 48 hours before the time of the AGM. Appointment of a proxy will not preclude a shareholder from attending the AGM and voting in person.

(7) To have the right to attend and vote at the AGM (and also for the purposes of calculating how many votes a person may cast) a person must have his/her name entered on the register of ordinary shareholders of the Company by no later than 10am on 14 April 1997. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Directors & Advisors

Directors

R. M. Aldridge, OBE, CPFA
(Chairman & Chief Executive)

P. R. M. Pindar, ACA, ATII
(Group Managing Director)

D. Fowler, CBE, FCCA, J. Dip.MA
(Non-Executive Deputy Chairman)

R. Alcock, FCA
(Non-Executive Director)

P. M. Doyle
(Group Director, Outsourcing Services)

G. M. Hurst, ACA
(Group Finance Director)

C. J. Welsh, FCMA
(Group Business Development Director – Services)

R. M. Benton, CIMA
(Group Business Development Director)

Secretary

K. Au, CIMA

Remuneration Committee

D. Fowler, CBE (Chairman)

R. Alcock

Sir Anthony Wilson

Audit Committee

R. Alcock (Chairman)

D. Fowler, CBE

Registered Office

61-71 Victoria Street
London SW1H 0XA
Tel: 0171-799 1525
Fax: 0171-799 1526

Financial Advisors

Close Brothers Corporate Finance Ltd
12 Appold Street
London EC2A 2AA

Stockbrokers

Credit Lyonnais Laing
Broadwalk House
5 Appold Street
London EC2A 2DA

Market Makers

The following companies have indicated to The Stock Exchange that they make a market in the Company's shares:

Kleinwort Benson
Merrill Lynch
UBS
Winterflood Securities

Auditors

Ernst & Young
Chartered Accountants
Becket House
1 Lambeth Palace Road
London SE1 7EU

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Clifford Chance
200 Aldersgate
London EC1A 4JJ

Bankers

Barclays Bank Plc
Piccadilly Business Centre
160 Piccadilly
London W1A 2AB

Notice of Annual General Meeting

Notice is hereby given that the 1997 Annual General Meeting of The Capita Group Plc will be held at the offices of Close Brothers Corporate Finance Limited, 12 Appold Street, London, EC2A 2AA on **15th April 1997 at 10.00am** for the transaction of the following business:

Ordinary Business

1. To receive the Directors' Report and Statement of Accounts for the year ended 31st December, 1996.
2. To declare a final dividend of 3.2 pence per ordinary share of the Company.
3. To re-elect a Director who retires by rotation in accordance with the Company's Articles of Association – PRM Pindar.
4. To re-elect a Director who retires by rotation in accordance with the Company's Articles of Association – P Doyle.
5. To re-elect a Director who retires by rotation – GM Hurst.
6. To re-appoint Ernst & Young as Auditors and to authorise the Directors to fix their remuneration.

   To transact any other ordinary or routine business of the Company.

Special Business

To consider and, if thought fit, to pass the following Resolutions, as to which Resolutions 7-9 (inclusive) shall be proposed as Ordinary Resolutions and Resolution 10 shall be proposed as a Special Resolution:

7. THAT:-

   (a) the Capita Group 1997 Executive Share Option Scheme ("Scheme"), the principal features of which are summarised in the Explanatory Note to Shareholders attached to this notice and the rules of which are produced to the meeting (and signed by the Chairman for the purpose of identification), be and is hereby approved and adopted;

   (b) the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient to establish and carry into effect the Scheme, including the making of any alterations necessary to obtain the approval of the Inland Revenue to Part A of the Scheme pursuant to the Income and Corporation Taxes Act 1988; and

   (c) the Directors be and they are hereby authorised to establish any further schemes similar to the Scheme for employees working and living outside the United Kingdom, but modified to take account of local securities laws, tax and other requirements provided all shares allocated under such schemes shall count against the limits on the number of shares which may be made available under the Scheme.

8. THAT:-

   (a) the authorised share capital of the Company be increased from £1,400,000 to £5,000,000 by the creation of 180,000,000 additional ordinary shares of 2p each in the capital of the Company; and

   (b) pursuant to the terms of Article 138 of the Articles of Association of the Company, the sum of up to £2,500,000 (being part of the amount standing to the credit of the Company's Share Premium Account) be and it is hereby capitalised and that accordingly the Directors be and they are hereby authorised and directed to appropriate such sum as capital to the members of the Company, in the proportions in which such sum would have been divisible amongst them had the same been applied in paying dividends on the ordinary shares of 2p each in the capital of the Company ("Ordinary Shares") held by them at 5.00pm on 15 April 1997, on condition that the same will not be paid in cash but will be applied in paying up in full at par unissued Ordinary Shares such Shares to be allotted and distributed credited as fully paid in the proportion of two new Ordinary Shares for every one fully paid Ordinary Share then held and the Directors be and they are hereby authorised and directed to give effect to this Resolution and to capitalise the sum of up to £2,500,000. The new Ordinary Shares shall rank pari passu in all respects with the existing Ordinary Shares in issue on the date on which this Resolution is passed except that the new Ordinary Shares shall not carry any right to the final dividend payable on 29 April 1997 or to receive any Shares allotted pursuant to this Resolution, and for this purpose the Directors be and they are hereby authorised unconditionally pursuant to and in accordance with section 80 of the Companies Act 1985 to exercise all of the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of up to £2,500,000 provided that this authority shall expire on 29 April 1997.

9. THAT subject to and conditionally on the passing of Resolution 8 above, the Directors be and they are hereby generally and unconditionally authorised, pursuant to Section 80(1) of the Companies Act 1985 ("Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £1,280,766 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or 15 months after the passing of this Resolution whichever is earlier save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired and that this authority shall be in addition to, and without prejudice to, the authority contained in Resolution 8 and shall operate in substitution for the general authority to allot relevant securities conferred on the Directors by the Ordinary Resolution numbered 7 passed at the Annual General Meeting of the Company held on 16 April 1996.

10. THAT, subject to and conditionally on the passing of Resolutions 8 and 9 above, the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("Act") to allot equity securities (within the meaning of Section 94(1) of the Act), pursuant to the authority conferred by Resolution 9 as if sub-section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

    (a) to the allotment of equity securities in connection with a rights issue or open offer in favour of holders of equity securities where the equity securities respectively attributable to the interest of all such holders are proportionate (or as nearly as may be) to the respective number of equity securities held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or legal or practical problems arising under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory;

    (b) to the allotment (otherwise than pursuant to sub-paragraph (a)) of equity securities up to an aggregate nominal value of £183,264

    and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or 15 months after the passing of this Resolution, whichever is the earlier save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and that Directors may allot equity securities in pursuance of any offer or agreement as if the power conferred hereby had not expired.

Registered Office:
61-71 Victoria Street
Westminster
London
SW1H 0XA

By order of the Board
Mr K Au
Secretary
Dated 24th February 1997

Directors' Report

The Directors present their report and the audited Group accounts for the year ended 31st December 1996.

Group activities

The principal activities of the Group comprise business and property related services. A review of the development of the Group and its business activities during the year is contained in the Chairman's statement on page 13.

Profits and dividends

The Group profit on ordinary activities before taxation amounted to £12,292,000 (1995 £9,420,000). The Directors recommend a final dividend of 3.2p per share (1995 2.6p) to be paid on 29th April 1997 to ordinary shareholders on the register on 21st March 1997.

Directors

The Directors of the company who served during the year are listed on page 20.

Mr P Doyle, Mr GM Hurst and Mr PRM Pindar retire by rotation and, being eligible, offer themselves for re-election. Mr JV Brameld and Mr S Stock resigned on 1st March 1996 and 6th June 1996 respectively. None of the Directors of the company had a material interest in any contract with the company or its subsidiary undertakings and no Director has a service contract exceeding one year.

Directors' interests

The interests of the present Directors in the ordinary shares of the company were as follows:

	31st December 1996	31st December 1995
	Ordinary Shares of 2p	Ordinary Shares of 2p
R. Alcock	1,870	-
R. M. Aldridge OBE	2,466,000	2,500,000
R. M. Benton	950,050	950,050
P. Doyle	-	-
D. Fowler CBE	5,250	5,250
G. M. Hurst	-	6,000
P. R. M. Pindar	571,000	612,000
C. J. Welsh	-	-

The interests shown above include non-beneficial holdings of ordinary shares in respect of Mr R M Benton 282,000 (1995 282,000) and in respect of Mr P R M Pindar 10,000 (1995 50,000).

The interests of the Directors under the share option scheme of the company are shown in the Report of the Remuneration Committee.

There is no change to Directors' interests during the period 1st January 1997 to 24th February 1997.

Substantial shareholders

On 24th February 1997 the company had notifications that, other than Directors listed above, the following were interested in 3% or more of the company's ordinary share capital:

	No. of shares	Percentage
National Westminster Group Plc	3,486,050	5.9%
Prudential Corporation	2,453,000	4.2%
Norwich Union Group	2,265,779	3.9%
Janus Capital Corporation	1,858,015	3.2%
Standard Life Group	1,756,478	3.0%

Statement by the Directors on compliance with the Code of Best Practice

The Board supports the high standards of corporate governance recommended by the Cadbury Committee. Apart from the number of non-executive members on the Group Board and the terms of their appointment, there has been full compliance with the Code.

With regard to the number of non-executive Directors and the terms of their appointment, the important point of principle is that the non-executives continue to maintain a vigorous independence. The Board encourages such independence without reservation. The non-executive Directors do not have fixed term appointments as envisaged by Cadbury but are, in accordance with the Articles of Association, subject to re-election every three years.

Going concern - After making enquires, the Directors have a reasonable expectation that the company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Internal financial control - The Board is responsible for establishing and maintaining the Group's system of internal financial control. Internal financial control systems are designed to meet the particular needs of the Group concerned and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the Directors have established with a view to providing effective internal financial control are as follows:

- the full Board meets monthly and has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues
- the Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority
- subsidiary Board meetings are also held monthly and attended by at least one Group Board Director
- a periodic review with subsidiary management of areas of business risk and plans to counter them is carried out
- the Group appoints experienced and professional staff of the necessary calibre to fulfil their allotted responsibilities
- there are established procedures for budgetary planning and capital expenditure and monthly reporting systems for monitoring the Group's businesses and their performance

The Directors confirm that they have carried out a review of the effectiveness of the system of internal financial control as it operated during the year.

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- the Group appoints experienced and professional staff of the necessary calibre to fulfil their allotted responsibilities
- there are established procedures for budgetary planning and capital expenditure and monthly reporting systems for monitoring the Group's businesses and their performance

The Directors confirm that they have carried out a review of the effectiveness of the system of internal financial control as it operated during the year.

Statement of Directors' Responsibilities in Respect of the Accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that the accounts comply with the above requirements.
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Company Secretary

During the year Mr G Hurst resigned as Company Secretary and Mr K Au was appointed in his place.

Disabled persons

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

Employee involvement

The Group is committed to involving all employees in the performance and development of the Group and operates an annual "fast track" management development programme. Employees are distributed with "Headline", the Group's newsletter, frequent internal notice board statements, and a review of the Group's financial position half yearly. The Group maintains a strong communications network and employees are encouraged to discuss with management matters of interest to the employee and subjects affecting day to day operations of the Group.

Payment of suppliers

The company aims to pay suppliers in accordance with the suppliers contract terms or within 30 days where no contract terms are in place.

Charitable and political donations

During the year charitable donations amounted to £7,000. No political contributions were made.

Auditors

A resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the Board
K Au
Company Secretary
24th February 1997

Report of the Remuneration Committee

The Capita Group's Remuneration Committee is a Committee of the Group Board with terms of reference approved by the Board. The Committee membership is:

Derek Fowler (Chairman)	Non-Executive Director
Robert Alcock	Non-Executive Director
Sir Anthony Wilson	Independent

The Group Chairman attends meetings by invitation.

Apart form the composition of the Remuneration Committee, the Company has complied throughout the year ended 31st December 1996 with the best practice provisions concerning remuneration committees annexed to the London Stock Exchange Listing Rules. The composition of the Committee does not consist exclusively of Non-Executive Directors as provided for in the Code of Best Practice but in the view of the Non-Executive Directors Sir Anthony Wilson's membership brings considerable strength to the Committee. He was a Non-Executive Director of The Capita Group Board for 3 years and has extensive practical and current experience of determining executive compensation packages.

Compensation Packages

a) Overall Policy

The Committee is of the view that the nature of The Capita Group's business, maintaining its growth and profit record and its developing characteristics justify an overall compensation policy that produces a package resting between the median and upper quartile ranges of comparable sector Groups. The Remuneration Committee has also given full consideration to Section B of the best practice provisions annexed to the London Stock Exchange Listing Rules.

b) Basic Pay

For the past 4 years basic pay has been determined by reference to a published independent study of comparable posts outside the Group and individual executives' performances against agreed objectives. This practice was supported by a more detailed independent study of the total compensation package which was completed in November 1996.

c) Bonus Scheme

The basis for payments under the bonus scheme is determined at the start of the year and payments are triggered at a predetermined Group profit level before tax. For Board Executives with Divisional responsibilities payments are also linked to achieving Divisional budgets. In the judgement of the Committee these performance conditions are relevant, stretching and designed to enhance the business.

The remuneration of the Directors is made up as follows:

	1996 £ 000's	**1995** £ 000's
Basic Salaries	767	687
Benefits	65	56
Compensation for loss of office	30	–
Performance bonus	286	175
Pension contributions	39	31
	1,187	949
Fees	35	34
	1,222	**983**

Details of Directors' remuneration is as follows:

	Salary and fees £	Compensation £	Benefits £	Performance related bonus £	Total 1996 £	Total 1995 £	Pension 1996 £	Pension 1995 £
R. M. Aldridge OBE	150,000	-	11,100	71,760	232,860	177,934	7,500	6,850
R. M. Benton	105,000	-	6,716	46,000	157,716	126,483	5,250	4,850
J. V. Brameld	28,444	-	7,294	-	35,738	73,488	-	-
P. Doyle	105,000	-	6,599	49,000	160,599	154,091	5,250	4,500
G. M. Hurst	90,000	-	6,970	47,840	144,810	91,902	4,500	3,333
P. R. M. Pindar	145,000	-	10,900	71,760	227,660	171,651	7,250	6,500
S. J. Stock	50,833	30,000	6,650	-	87,483	41,769	4,492	1,633
C. J. Welsh	92,500	-	8,446	-	100,946	81,300	4,625	3,750
R. Alcock	15,000	-	-	-	15,000	15,000	-	-
D. Fowler CBE	20,000	-	-	-	20,000	18,500	-	-

Pension contributions are made into the Group's defined contribution scheme based on salary only.

Director's emoluments, excluding pension contributions and compensation for loss of office, fell within the following ranges:

	1996 No.	1995 No.
£15,001 - £20,000	2	2
£35,001 - £40,000	1	-
£40,001 - £45,000	-	1
£55,001 - £60,000	1	-
£70,001 - £75,000	-	1
£80,001 - £85,000	-	1
£90,001 - £95,000	-	1
£100,001 - £105,000	1	-
£125,001 - £130,000	-	1
£140,001 - £145,000	1	-
£150,001 - £155,000	-	1
£155,001 - £160,000	1	-
£160,001 - £165,000	1	-
£170,001 - £175,000	-	1
£175,001 - £180,000	-	1
£225,001 - £230,000	1	-
£230,001 - £235,000	1	-

d) Share Option Schemes

Capita operates two schemes: an "A" Scheme and a "B" scheme. The "A" Scheme grants options over a maximum of 5% of Capita's equity. These options are exercisable between the 3rd and 10th anniversary of issue subject to the condition that the growth in Capita's earnings per share must exceed the growth in the retail price index over the corresponding period.

The "B" Scheme grants options over a maximum of a further 5% of Capita's equity. These options are exercisable between the 5th & 10th anniversary of issue subject to the growth in Capita's earnings per share being in the top quartile of FTSE 100 companies.

The Share option schemes have been a key factor in attracting, retaining and motivating senior staff across the Group. The Group grants share options to Directors and other senior employees, on a discretionary basis, in order to reward their long term commitment to the Group. The granting of all share options is subject to the approval of the Remuneration Committee.

The Committee has reviewed the adequacy of the existing share option schemes against a background of the Group's performance and growth. Accordingly the Committee has recommended that an additional scheme be submitted for shareholder approval at the Annual General Meeting.

Interests in Executive Share options are as follows:

	Exercise price (£)	At1st Jan 96	Granted in year	Exercised in year	At 31st Dec 96	Exercisable between:-
R. M. Aldridge OBE	0.96	150,000	-	-	150,000	31.03.1997 – 31.03.2002
	1.54	120,000	-	-	120,000	22.02.1998 – 22.02.2003
R. M. Benton	0.96	150,000	-	-	150,000	31.03.1997 – 31.03.2002
	1.63	70,000	-	-	70,000	19.08.1999 – 19.08.2004
P. Doyle	1.14	105,000	-	-	105,000	08.09.1995 – 08.09.2002
	1.50	75,000	-	-	75,000	29.07.1996 – 29.07.2003
	2.06	25,000	-	-	25,000	03.03.1999 – 03.03.2004
	1.47	25,000	-	-	25,000	07.04.2000 – 07.04.2005
	3.02	-	25,000	-	25,000	11.03.2001 – 11.03.2006
G. M. Hurst	0.96	30,000	-	-	30,000	31.03.1997 – 31.03.2002
	1.63	100,000	-	-	100,000	19.08.1997 – 19.08.2004
	1.14	30,000	-	-	30,000	08.09.1997 – 08.09.2002
	1.54	15,000	-	-	15,000	22.02.1998 – 22.02.2003
	1.50	15,000	-	-	15,000	29.07.1998 – 29.07.2003
P. R. M. Pindar	0.96	150,000	-	-	150,000	31.03.1997 – 31.03.2002
	1.54	120,000	-	-	120,000	22.02.1998 – 22.02.2003
	1.63	80,000	-	-	80,000	19.08.1997 – 19.08.2004
C. J. Welsh	1.14	30,000	-	-	30,000	08.09.1997 – 08.09.2002
	1.50	20,000	-	-	20,000	29.07.1998 – 29.07.2003
	2.06	25,000	-	-	25,000	03.03.1999 – 03.03.2004
	1.47	25,000	-	-	25,000	07.04.2000 – 07.04.2005

The market price of the company's shares on 31st December 1996 was 486.5p and the high and low prices during the year were 486.5p and 285p respectively.

e) Service Contracts

No service contracts for Group Executive Directors provide for notice periods in excess of one year. Neither do they include provisions for predetermined compensation on termination which exceed one year's salary and benefits.

Non-Executive Directors

Non-Executive Directors' Fees are determined by the Executive Directors.

Derek Fowler CBE
Chairman Remuneration Committee
24th February 1997

Report of the Auditors

To the members of The Capita Group Plc

We have audited the accounts on pages 28 to 47, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 32 and 33. We have also examined the amounts disclosed relating to the emoluments and share options of the Directors which form part of the Report of the Remuneration Committee on pages 24 to 26.

Respective responsibilities of Directors and Auditors

As described on page 23, the company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group as at 31st December 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate governance

In addition to our audit of the accounts we have reviewed the Directors' statements on page 22 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the Directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or it's corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

With the respect to the Directors' statements on internal financial control and going concern on page 22, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and officers of the company, and examination of relevant documents, in our opinion the Directors' statement on page 22 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Ernst & Young
Chartered Accountants
Registered Auditor
London
24th February 1997

Group Profit and Loss Account

for the year ended 31st December 1996

	Notes	1996 £'000's	1995 £'000's
Turnover	2		
Continuing operations		106,809	86,994
Acquisitions		5,060	-
		111,869	86,994
Cost of sales	2	79,513	60,723
Gross profit		32,356	26,271
Administrative expenses	2	22,165	17,433
Income from interests in associated undertakings		1,762	269
Operating profit	3		
Continuing operations		11,421	9,107
Acquisitions		532	-
		11,953	9,107
Continuing operations:			
Profit on sale of fixed assets	5	12	-
		11,965	9,107
Bank interest receivable		337	342
Interest payable	6	(10)	(29)
Profit on ordinary activities before taxation	2	12,292	9,420
Tax on profit on ordinary activities	7	4,010	2,901
Profit on ordinary activities after taxation		8,282	6,519
Minority interest	17	180	48
Profit for the financial year		8,102	6,471
Dividends	9	2,771	2,171
Retained profit for the year		**5,331**	**4,300**
Earnings per share	10	**14.3p**	**11.8p**

Movements in reserves are shown in note 18.

Balance Sheets
at 31st December 1996

	Notes	Group 1996 £ 000's	Group 1995 £ 000's	Company 1996 £ 000's	Company 1995 £ 000's
Fixed assets					
Tangible assets	11	6,808	6,301	234	648
Investments	12	120	632	47,001	35,953
		6,928	6,933	47,235	36,601
Current assets					
Trade investments		343	312	343	312
Debtors due within one year	13	25,072	21,220	948	4,113
Debtors due beyond one year	13	2,727	537	1,478	365
Cash at bank and in hand		16,445	10,571	6,346	2,122
		44,587	32,640	9,115	6,912
Creditors: amounts falling due within one year	14	39,390	29,171	5,085	4,074
Net current assets		5,197	3,469	4,030	2,838
Total assets less current liabilities		12,125	10,402	51,265	39,439
Creditors: amounts falling due after more than one year	14	1	68	675	675
Provisions for liabilities and charges	15	917	839	441	319
		11,207	**9,495**	**50,149**	**38,445**
Capital and reserves					
Called up share capital	16	1,167	1,122	1,167	1,122
Share premium account	18	28,538	20,148	28,538	20,148
Shares to be issued	18	1,750	-	1,750	-
Merger reserve	18	-	-	7,150	7,150
Goodwill write off reserve	18	(41,902)	(28,095)	-	-
Profit and loss account	18	20,958	15,644	11,544	10,025
Shareholders funds (Equity)		10,511	8,819	50,149	38,445
Minority interest (Equity and non equity)	17	696	676	-	-
		11,207	**9,495**	**50,149**	**38,445**

The accounts were approved by the Board of Directors on 24th February 1997 and signed on its behalf by:

R.M.Aldridge OBE
G.M.Hurst

Group Cash Flow Statement

for the year ended 31st December 1996

	Notes	1996 £ 000's	1996 £ 000's	1995 £ 000's	1995 £ 000's
Cash flow from operating activities	20		16,029		7,914
Returns on investments and servicing of finance					
Dividends paid to minorities in subsidiaries		(48)		(40)	
Interest received		337		342	
Interest element of finance lease payments		(2)		(12)	
Interest paid		(8)		(17)	
Net cash inflow from returns on investments and servicing of finance			279		273
Taxation			(2,943)		(1,549)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(4,195)		(2,133)	
Loan to associated undertaking		(1,000)		-	
Proceeds on sale of fixed assets		1,843		122	
Net cash outflow from capital expenditure and financial investment			(3,352)		(2,011)
Acquisitions and disposals					
Sale of subsidiary undertakings		-		(914)	
Purchase of subsidiary undertakings	22	(851)		(846)	
Cash acquired with subsidiary undertakings		28		359	
Purchase of business	22	(412)		(847)	
Purchase of interest in associated undertaking		(555)		-	
Net cash outflow from acquisitions and disposals			(1,790)		(2,248)
Equity dividends paid			(2,362)		(1,918)
Net cash inflow before use of liquid resources and financing			5,861		461
Management of liquid resources					
Purchase of trade investments		(35)		-	
Proceeds on sale of trade investments		4		305	
Net cash flow from management of liquid resources			(31)		305
Financing					
Issue of ordinary share capital		268		208	
Issue of subsidiary preference shares		-		1	
Share issue costs		(148)		(2)	
Capital element of finance lease rental payments		(16)		(54)	
Repayment of long term creditors		(60)		-	
Net cash inflow from financing			44		153
Increase in cash in the period	**21**		**5,874**		**919**

Group Statement of Total Recognised Gains and Losses

for the year ended 31st December 1996

	1996	1995
	£ 000's	£ 000's
Profit attributable to the members of the parent company	8,102	6,471
Exchange adjustments	(17)	-
Total recognised gains and losses relating to the year	**8,085**	**6,471**

Reconciliation of Movements in Shareholders' Funds

	1996	1995
	£ 000's	£ 000's
Total recognised gains and losses	8,085	6,471
Dividends	(2,771)	(2,171)
	5,314	4,300
New share capital subscribed	8,435	2,811
Share capital to be issued	1,750	-
Share of associates reserve movements (including goodwill)	(1,468)	-
Goodwill written off	(12,339)	(9,865)
Goodwill written back	-	3,945
Net movement to shareholders' funds	1,692	1,191
Opening shareholders' funds	8,819	7,628
Closing shareholders' funds	**10,511**	**8,819**

(1) Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Basis of consolidation

The Group accounts consolidate the accounts of the company and each of its subsidiary undertakings. Subsidiary undertakings are accounted for from the effective date of acquisition until the effective date of disposal. Inter-company sales are eliminated on consolidation so that the Group accounts relate to external transactions only.

Undertakings, other than subsidiary undertakings, in which the Group has an investment and over which it is in a position to exercise a significant influence are treated as associated undertakings. The Group accounts include the appropriate share of the undertaking's results and reserves based on audited accounts to 31st December 1996.

A separate profit and loss account dealing with the results of the parent undertaking only has not been presented as provided by section 230 of the Companies Act 1985.

(c) Goodwill

Purchased goodwill and goodwill arising on consolidation are written off against reserves in the year of acquisition.

(d) Turnover

Turnover represents fees invoiced in respect of services provided during the year (stated net of value added tax), except in respect of long term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover was earned within the United Kingdom and the Far East.

(e) Long term contracts

Profits are recognised on long term contracts where the final outcome can be assessed with reasonable certainty. In calculating this the percentage of completion method is used based on the proportion of costs incurred to the total estimated cost. Cost includes direct staff costs and outlays. Full provision is made for all known or anticipated losses on each contract immediately such losses are forecast.

Amounts recoverable on contracts are stated at that proportion of the anticipated net sales value earned to date less fees paid on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as payments on account.

(f) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost on a straight line basis over the expected useful lives of the assets concerned, as follows:

Long leasehold property	50 years
Computer equipment	3-5 years
Furniture, fixtures and equipment	4-5 years
Leasehold improvements	over the period of the lease
Motor vehicles	3-5 years

(g) Investments

Fixed asset investments are shown at cost less amounts written off for any permanent diminution in value.

Investments held as current assets are stated at the lower of cost and net realisable value.

(h) Pension scheme

The Group maintains a number of contracted-out money purchase schemes and contributions are charged to the profit and loss account in the year in which they are due. The Group also operates defined benefit pension schemes. Contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

(i) Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase commitments are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful economic lives.

The finance charges under finance leases and hire purchase contracts are allocated to accounting periods over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals due under operating leases are charged on a straight-line basis over the lease term.

(j) Deferred taxation

Deferred taxation is provided using the liability method on timing differences where reasonable probability exists that such taxation will crystallise in the foreseeable future. Advance corporation tax which is expected to be recoverable in the future is shown as a current asset. Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

(k) Foreign currencies

Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

Group

The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on consolidation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises.

(l) Contract costs

Costs incurred in establishing a new or changed operation after contract award but before the delivery of outsourced services, are capitalised and amortised over the initial period of the contract, in order to match these costs against the associated revenues. Cost include direct staff costs and outlays. Full provision is made against the costs if losses are anticipated on the related contract.

(2) Segmental information

(a) Turnover and profit on ordinary activities before taxation

		Class of business			
		Advisory	Property	Outsourcing	Total
Turnover		£ 000's	£ 000's	£ 000's	£ 000's
1996	Continuing operations	11,761	20,864	75,557	108,182
	Acquisitions	-	1,799	3,261	5,060
		11,761	22,663	78,818	113,242
	Inter-segment sales	(985)	(89)	(299)	(1,373)
	Third party sales	**10,776**	**22,574**	**78,519**	**111,869**
1995	Continuing operations	9,392	20,422	57,424	87,238
	Inter-segment sales	(63)	(28)	(153)	(244)
	Third party sales	**9,329**	**20,394**	**57,271**	**86,994**
Profit before tax					
1996	Continuing operations	1,022	2,689	6,287	9,998
	Acquisitions	-	50	482	532
	Associated undertakings	-	-	1,762	1,762
	Segment profit	**1,022**	**2,739**	**8,531**	**12,292**
1995	Continuing operations	1,007	2,442	5,702	9,151
	Associated undertakings	-	-	269	269
	Segment profit	**1,007**	**2,442**	**5,971**	**9,420**
Net assets					
1996	Continuing operations	6,725	3,314	5,809	15,848
	Associated undertakings	-	-	120	120
	Non operating liabilities				(4,761)
					11,207
1995	Continuing operations	5,714	2,835	4,303	12,852
	Associated undertakings	-	-	632	632
	Non operating liabilities				(3,989)
					9,495

Included in 'Continuing operations' above within the Property segment is £420,000 (1995 £746,000) of turnover and £102,000 profit before tax (1995 £13,000 loss before tax) generated in the Far East. All other turnover and profit before tax was generated within the United Kingdom.

Since acquisition the acquired businesses of IT Supporting Management Ltd and the data preparation business of Avern Data Management Services Ltd have been completely integrated with Sims Ltd and Capita Managed Services Ltd respectively. Accordingly it is not possible to determine the post acquisition results of these businesses.

(b) Analysis of operating profit

	Continuing	Acquisitions	1996 Total	1995 Total
	£ 000's	£ 000's	£ 000's	£ 000's
Cost of sales	77,309	2,204	79,513	60,723
Administrative expenses	19,841	2,324	22,165	17,433
	97,150	**4,528**	**101,678**	**78,156**

Included within cost of sales on acquisitions is £1,327,000 in respect of Recruitment and Assessment Services Ltd and £877,000 in respect of Estatecare Group Ltd. In addition, included within administrative expenses on acquisitions is £1,452,000 in respect of Recruitment and Assessment Services Ltd and £872,000 in respect of Estatecare Group Ltd.

(3) Operating profit

(a) This is stated after charging:

		1996	1995
		£ 000's	£ 000's
Staff costs (see note 4)		52,387	39,302
Auditors' remuneration	- statutory audit *	105	90
	- other fees	34	96
Operating lease costs	- plant and machinery	6,279	5,739
	- land and buildings	3,405	2,287
Depreciation		2,291	1,986

* £3,000 (1995 £3,000) of this relates to the company.

(b) Details of Directors remuneration are contained within the Report of the Remuneration Committee.

(4) Staff costs

Staff costs, including Directors, comprise	1996	1995
	£ 000's	£ 000's
Wages and salaries	46,355	35,147
Social security costs	3,970	2,972
Other pension costs	2,062	1,183
	52,387	**39,302**

The average number of employees during the year was made up as follows:	1996 No.	1995 No.
Consultants	402	393
Sales and administration	233	144
Operations	1,715	1,030
	2,350	**1,567**

(5) Exceptional items

	1996	1995
	£ 000's	£ 000's
Profit on sale of long leasehold building	629	-
Loss on disposal of fixed assets	(617)	-
	12	**-**

(6) Interest payable

	1996	1995
	£ 000's	£ 000's
Bank loans and overdrafts wholly repayable within 5 years	8	17
Finance charges payable under finance leases and hire purchase contracts	2	12
	10	**29**

(7) Tax on profit on ordinary activities

The charge for the year is made up as follows:	1996	1995
	£ 000's	£ 000's
Corporation tax at 33% (1995 33%)	3,474	2,874
Deferred tax	(67)	329
Adjustment to prior years	3	(374)
Tax credit attributable to dividends received	-	4
Overseas tax	36	-
Associated undertaking - corporation tax	588	68
Associated undertaking - deferred tax	(24)	-
	4,010	**2,901**

A capital loss arises in respect of the taxation of the exceptional items.

(8) Profit attributable to members of the parent undertaking

The profit dealt with in the accounts of the parent undertaking was £4,290,000 (1995 £5,357,000).

(9) Dividends

			1996	1995
			£ 000's	£ 000's
Ordinary shares	- Interim	- paid	903	712
	- Final	- proposed	1,868	1,459
			2,771	**2,171**
Preference dividend payable to minorities (non-equity)			**43**	**48**

(10) Earnings per share

Earnings per share is calculated on the basis of earnings of £8,102,000 (1995 £6,471,000) and on the weighted average of 56,851,519 (1995 55,037,637) shares in issue during the year.

(11) Tangible fixed assets

a) Group

	Long leasehold Land and Buildings	Computer Equipment	Furniture, Fixtures and Equipment	Short term Leasehold Improvements	Motor Vehicles	Total
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Cost						
1st January 1996	1,602	6,850	2,168	2,143	275	13,038
Subsidiaries acquired	-	230	37	-	-	267
Exchange adjustments	-	(1)	-	(1)	(5)	(7)
Additions	184	2,143	814	1,033	21	4,195
Disposals	(1,369)	(294)	(44)	(695)	(106)	(2,508)
31st December 1996	417	8,928	2,975	2,480	185	14,985
Depreciation						
1st January 1996	283	4,059	1,531	698	166	6,737
Subsidiaries acquired	-	-	29	-	-	29
Exchange adjustments	-	(1)	-	(1)	(4)	(6)
Charge for year	14	1,475	336	410	56	2,291
Disposals	(244)	(267)	(44)	(235)	(84)	(874)
31st December 1996	53	5,266	1,852	872	134	8,177
Net Book Value at:						
1st January 1996	**1,319**	**2,791**	**637**	**1,445**	**109**	**6,301**
31st December 1996	**364**	**3,662**	**1,123**	**1,608**	**51**	**6,808**

The net book value of motor vehicles includes an amount of £1,000 (1995 £5,000) in respect of assets held under finance leases and hire purchase contracts.

The total depreciation charged in the year with respect to these assets held under finance leases and hire purchase contracts amounted to £4,000 (1995 £2,000).

b) Company

	Long leasehold Land and Buildings	Computer Equipment	Furniture, Fixtures and Equipment	Short term Leasehold Improvements	Motor Vehicles	Total
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Cost						
1st January 1996	60	212	47	484	23	826
Additions	1,065	10	3	-	-	1,078
Disposals	(1,125)	(71)	-	(315)	-	(1,511)
31st December 1996	-	151	50	169	23	393
Depreciation						
1st January 1996	-	58	29	90	1	178
Charge for year	-	63	8	30	6	107
Disposals	-	(44)	-	(82)	-	(126)
31st December 1996	-	77	37	38	7	159
Net Book Value at:						
1st January 1996	**60**	**154**	**18**	**394**	**22**	**648**
31st December 1996	**-**	**74**	**13**	**131**	**16**	**234**

(12) Fixed asset investments

	Group	Company	
	Associated Undertakings	Shares in Subsidiary Undertakings	Shares in Associated Undertakings
	£ 000's	£ 000's	£ 000's
At 1st January 1996	632	29,863	6,090
Share of associates retained profit	956	-	-
Share of associates reserve movements	(1,468)	-	-
Additions	-	10,293	755
At 31st December 1996	**120**	**40,156**	**6,845**

On 9th September 1996, the company issued 266,000 2p ordinary shares of The Capita Group Plc in respect of the deferred consideration due on the acquisition of Sims Holdings Ltd. Further consideration of £1,750,000 is due, which will be satisfied by the issue of shares on 31st March 1997.

On 17th September 1996, the company issued 1,850,000 2p ordinary shares of The Capita Group Plc in respect of the acquisition of Recruitment and Assessment Services Ltd (including acquisition and share issue costs).

With regard to the investments in associates the Group holds 2,700,000 ordinary shares of 80p in Equitable Revenue Holdings Ltd, being 46.33% of issued capital of £4,662,576. During the year Equitable Revenue Holdings Ltd purchased our shares in Equitable Holdings Plc, as part of a financial restructuring, by the issue of shares in Equitable Revenue Holdings Ltd. The Group has no interest in the 3,717,647 one pence preference shares of Equitable Revenue Holdings Ltd. In addition the Group holds 50 ordinary shares of £1 each in DriveSafe Services Ltd (issued capital of £100) and 500 ordinary shares of £1 each in OAO/ICOR (UK) Ltd (issued capital of £1,000).

The reserve movements of the associates represents goodwill of businesses they have purchased and a reduction in reserves as part of the financial restructuring of Equitable Holdings Plc.

Details relating to subsidiary undertakings acquired during the year are shown in Note 22.

Principal Group Investments

	Country of Registration and Operation	Proportion of nominal value of issued shares held by the company	Description of shares held
Capita Management Consultancy Limited	England	100%	Ordinary £1 shares
Capita Recruitment Services Limited	England	100%	Ordinary £1 shares
Capita Corporate Finance Limited	England	100%	Ordinary £1 shares
Ripa International Limited	England	100%	Ordinary £1 shares
Penn Communications Limited	England	100%	Ordinary £1 shares
Capita Managed Services Limited	England	100%	Ordinary £1 shares
The Chalice Group Limited	England	100%	Ordinary £1 shares
Academy Information Systems Limited	England	100%	Ordinary £1 shares
Sims Holdings Limited	England	100%	Ordinary £1 shares
Sims Limited *	England	100%	Ordinary £1 shares
Sims Educations Services Limited *	England	100%	Ordinary £1 shares
Sims Support Services Limited *	England	100%	Ordinary £1 shares
Recruitment & Assessment Services Limited	England	100%	Ordinary £1 shares
DriveSafe Services Limited	England	50%	Ordinary £1 shares
OAO/ICOR (UK) Limited *	England	50%	Ordinary £1 shares
Greatorex Limited	England	100%	Ordinary £1 shares
EDM Architects Limited	England	100%	Ordinary £1 shares
Beard Dove Limited	England	100%	Ordinary £1 shares
Beard Dove (Malaysia) Sdn Bhd *	Malaysia	100%	Ordinary RM1 shares
Estatecare Group Limited	England	60%	Ordinary £1 shares
Equitable Revenue Holdings Limited	England	46.33%	Ordinary 80p shares

* Indirectly held

The activities of Group undertakings are given on page 47.

(13) Debtors

	Group		Company	
Debtors due within one year	**1996**	**1995**	**1996**	**1995**
	£ 000's	£ 000's	£ 000's	£ 000's
Trade debtors	14,685	11,951	40	25
Amounts recoverable on contracts	2,679	1,034	-	-
Contract costs	269	163	-	-
Amounts owed by subsidiary undertakings	-	-	192	3,644
Amounts owed by associated undertakings	107	-	12	-
Taxation recoverable	102	214	583	86
Other debtors	1,085	813	-	218
Prepayments and accrued income	6,145	7,045	121	140
	25,072	**21,220**	**948**	**4,113**
Debtors due beyond one year				
Amounts owed by associated undertakings	1,025	-	1,000	-
Contract costs	961	-	-	-
ACT recoverable	478	365	478	365
Deferred tax	263	172	-	-
	2,727	**537**	**1,478**	**365**

The movements of the Group deferred tax asset are:	Group	Company
	£ 000's	£ 000's
At 1st January 1996	172	-
Transfer from current tax	91	-
At 31st December 1996	**263**	-

The deferred tax asset is in respect of provisions not utilised.

(14) Creditors

Amounts falling due within one year	**Group**		**Company**	
	1996	**1995**	**1996**	**1995**
	£ 000's	£ 000's	£ 000's	£ 000's
Trade creditors	7,844	6,356	433	409
Amounts owed to subsidiary undertakings	-	-	678	233
Amounts owed to associated undertakings	139	-	-	-
Contract payments on account	1,175	799	-	-
Other creditors	1,216	736	46	-
Current corporation tax	3,693	3,083	693	571
Other taxes and social security	7,850	5,432	1,014	1,232
Pension schemes creditor	337	344	-	-
Obligations under finance leases	-	9	-	-
Accruals and deferred income	15,225	10,905	353	170
Proposed dividends	1,911	1,507	1,868	1,459
	39,390	**29,171**	**5,085**	**4,074**

Amounts falling due after more than one year	**Group**		**Company**	
	1996	**1995**	**1996**	**1995**
	£ 000's	£ 000's	£ 000's	£ 000's
Obligations under finance leases	1	8	-	-
Amounts owed to subsidiary undertakings	-	-	675	675
Bank loans	-	60	-	-
	1	**68**	**675**	**675**

The obligations under finance leases all fall due within two to five years.

(15) Provisions for liabilities and charges

Group

	Reorganisation Provisions £ 000's
At 1st January 1996	839
Utilisation of acquisition provisions	(122)
On business previously disposed	200
At 31st December 1996	**917**

Company

At 1st January 1996	319
Utilisation of acquisition provisions	(78)
On business previously disposed	200
At 31st December 1996	**441**

There is no unprovided deferred tax (1995 £nil).

It is assumed that any subsidiary undertakings' tax losses will be available for offset by Group relief.

(16) Share capital

	1996		**1995**	
	No. 000's	£ 000's	No. 000's	£ 000's
Authorised Ordinary shares of 2p each	70,000	1,400	70,000	1,400
Allotted, called up and fully paid Ordinary shares of 2p each	58,371	1,167	56,115	1,122

Changes in Allotted, Called Up and Fully Paid Ordinary Share Capital in the year

(i) On 9th September 1996, the company issued and allotted 266,000 ordinary shares at a market price of £4, credited as fully paid, pursuant to the deferred consideration of Sims Holdings Limited. The value received in respect of the shares was £1,065,000 (aggregate nominal value £5,000).

(ii) On 17th September 1996, the company, by way of a placing, issued and allotted 1,850,000 ordinary shares at a market price of £4, credited as fully paid, pursuant to the acquisition of Recruitment and Assessment Services Limited (including acquisition and share issue costs). The consideration received in respect of the shares was £7,400,000 (aggregate nominal value £37,000).

(iii) During the year, 140,000 ordinary shares (nominal value £3,000) were allotted under share option schemes for a consideration of £118,000.

Contingent Rights for the Allotment of Shares

At 31st December 1996, the following options to subscribe for ordinary shares of 2 pence each in the company were outstanding:

Number of shares under option	Exercisable option price	Period during which option may be exercised
3,000	£0.043	between 9th January 1992 and 9th January 1999
120,000	£1.163	between 5th October 1994 and 5th October 2001
105,000	£1.143	between 8th September 1995 and 8th September 2002
585,000	£0.96	between 31st March 1997 and 31st March 2002
81,000	£1.077	between 10th August 1997 and 10th August 2002
75,000	£1.143	between 8th September 1997 and 8th September 2002
75,000	£1.50	between 29th July 1996 and 29th July 2003
15,000	£2.06	between 3rd March 1997 and 3rd March 2004
195,000	£1.63	between 19th August 1997 and 19th August 2004
384,000	£1.54	between 22nd February 1998 and 22nd February 2003
35,000	£1.50	between 29th July 1998 and 29th July 2003
185,000	£2.06	between 3rd March 1999 and 3rd March 2004
357,500	£1.63	between 19th August 1999 and 19th August 2004
30,000	£1.47	between 6th April 1998 and 6th April 2005
20,000	£2.13	between 8th September 1998 and 8th September 2005
224,500	£1.47	between 7th April 2000 and 7th April 2005
45,000	£2.13	between 8th September 2000 and 8th September 2005
206,000	£3.02	between 11th March 2001 and 11th March 2006
209,000	£3.36	between 1st August 2001 and 1st August 2006

In addition, the company will issue shares on 31st March 1997 to the value of £1,750,000 in respect of deferred consideration on the acquisition of Sims Holdings Ltd. The price and number of shares will be determined by reference to the average price of the shares for the ten business days prior to 31st March 1997.

(17) Minority interest

	1996	1995
	£ 000's	£ 000's
Minority interest - Non equity	676	676
Minority interest - Equity	20	-
	696	**676**

£676,000 of the minority interest represents preference shares of a subsidiary. Shares to the value of £675,000 are 8% gross convertible redeemable preference shares of £1 each which are convertible into fully paid ordinary shares of The Capita Group Plc at £2.14 per share at any time prior to 31st December 2004. Shares to the value of £1,000 are redeemable preference shares, redeemable at par. No dividend is payable until specified performance criteria are achieved.

The minority interest charge in the profit and loss includes a charge of £20,000 (1995 £nil) in respect of equity interests and a charge of £160,000 (1995 £48,000), including £117,000 (1995 £nil) preference dividends paid by an associate, in respect on non-equity interests.

(18) Reserves

Group

	Share Premium	Shares to be issued	Goodwill Write off Reserve	Merger Reserve	Profit and Loss Account
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
At 1st January 1996	20,148	-	(28,095)	-	15,644
Shares issued	8,538	-	-	-	-
Costs of share issues	(148)	-	-	-	-
Arising on acquisitions	-	-	(12,339)	-	-
Shares to be issued	-	1,750	-	-	-
Share of associates reserve movements	-	-	(1,468)	-	-
Exchange adjustments	-	-	-	-	(17)
Retained profit for the year	-	-	-	-	5,331
At 31st December 1996	**28,538**	**1,750**	**(41,902)**	**-**	**20,958**

Company

	Share Premium	Shares to be issued	Goodwill Write off Reserve	Merger Reserve	Profit and Loss Account
At 1st January 1996	20,148	-	-	7,150	10,025
Shares issued	8,538	-	-	-	-
Costs of share issues	(148)	-	-	-	-
Shares to be issued	-	1,750	-	-	-
Retained profit for the year	-	-	-	-	1,519
At 31st December 1996	**28,538**	**1,750**	**-**	**7,150**	**11,544**

The companies acquired have been dealt with as acquisitions.

The cumulative amount of goodwill written off at 31st December 1996, net of goodwill relating to undertakings disposed of, is £48,957,000 (1995 £35,150,000).

(19) Commitments and contingent liabilities

(a) Annual commitments under operating leases were as follows:

	1996		1995	
	Property	Other	Property	Other
	£ 000's	£ 000's	£ 000's	£ 000's
Operating leases which expire:				
Within one year	543	297	57	182
In second to fifth year inclusive	940	5,129	893	4,616
Over five years from the balance sheet date	2,097	123	1,495	140
	3,580	**5,549**	**2,445**	**4,938**

(b) The company has guaranteed overdraft facilities of Group undertakings amounting to £2,500,000 (1995 £1,250,000), and guaranteed annual operating lease facilities for Capita Managed Services Limited and Academy Information Systems Limited of £1,492,000 (1995 £3,753,000).

(c) At 31st December 1996 capital commitments contracted for but not provided in the accounts amounted to £478,000 (1995 £331,000).

(20) Reconciliation of operating profit to net cash inflow from operating activities

	1996	1995
	£ 000's	£ 000's
Operating profit before interest	11,965	9,107
Depreciation charge	2,291	1,986
Profit on sale of fixed assets and trade investments	(209)	(67)
Share of profits of associated undertakings	(1,762)	(269)
Dividend received from associated undertaking	125	-
Utilisation and release of reorganisation provisions	(122)	(565)
Increase in debtors	(4,532)	(4,706)
Increase in creditors	8,273	2,428
	16,029	**7,914**

The profit on sale of fixed assets and trade investments includes a profit of £12,000 in respect of the exceptional item. In addition, the cash flow includes an inflow of £1,745,000 under proceeds on sale of fixed assets and trade investments in respect of the exceptional item.

(21) Reconciliation of net cash flow to movement in net funds

The Group includes as liquid resources equity investments held as current assets.

	Net funds at 1 January 1996	Cash flow movements	Net funds at 31 December 1996
	£ 000's	£ 000's	£ 000's
Cash at bank and in hand	10,571	5,874	16,445
Debt due after 1 year	(60)	60	-
Finance leases	(17)	16	(1)
Current asset - trade investments	312	31	343
Total	**10,806**	**5,981**	**16,787**

	Net funds at 1 January 1995	Acquisition (Exc cash)	Cash flow movements	Net funds at 31 December 1995
	£ 000's	£ 000's	£ 000's	£ 000's
Cash at bank and in hand	9,652	-	919	10,571
Debt due after 1 year	(56)	(4)	-	(60)
Finance leases	(103)	32	54	(17)
Current asset - trade investments	595	-	(283)	312
Total	**10,088**	**28**	**690**	**10,806**

(22) Acquisitions

	Book value	Accounting policy adjustments	Fair value adjustments	Fair value to the Group
	£ 000's	£ 000's	£ 000's	£ 000's
Tangible fixed assets	791	-	(553)	238
Intangible fixed assets	695	(695)	-	-
Debtors	446	-	(20)	426
Cash	28	-	-	28
Creditors	(933)	-	-	(933)
Taxation	(15)	-	-	(15)
	1,012	(695)	(573)	(256)
Goodwill				11,584
Consideration				**11,328**
Discharged by:				
Shares allotted				10,065
Cash				1,263
				11,328

The major acquisitions during the year comprise Recruitment and Assessment Services Ltd and Estatecare Group Ltd.

Estatecare Group Ltd. On 5th July 1996 the Group acquired 60% of the issued share capital of Estatecare Group Ltd for £1,000. Estatecare Group Ltd immediately purchased the business of Estatecare for a consideration of £346,000. It acquired fixed assets of £5,000, Intangible fixed assets of £695,000 (fair value £nil to comply with the Groups' accounting policies), creditors of £25,000 and provisions of £500,000. The business of Estatecare was previously part of a government agency and no separate management accounts or audited accounts have been produced for the Estatecare business purchased by the Group.

Recruitment and Assessment Services Ltd. On 1st October 1996 the Group acquired Recruitment and Assessment Services Ltd for a consideration of £7,456,000 satisfied by cash of £206,000 and the issue of shares. The Group acquired fixed assets of £704,000 (fair value £225,000). Prior to our acquisition, Recruitment and Assessment Services was an Executive Agency of The Cabinet Office, Office of Public Service. The unaudited management accounts for the period 1st April 1996 to the effective date of acquisition show a surplus on ordinary activities of £641,000. The audited financial statements for the year ended 31st March 1996 show a surplus on ordinary activities of £683,000.

The subsidiary undertakings acquired during the year resulted in net operating activities inflows of £2,311,000 for the Group, outflows of £2,000 in respect returns on investments and servicing of finance, and outflows of £26,000 in respect of capital expenditure and financial investment.

In addition the Group acquired IT Supporting Management Ltd on 17th June 1996, the data preparation business of Avern Data Management Services Ltd on 16th December 1996, and on 17th September 1996 the Group acquired further shares in Equitable Revenue Holdings Ltd. At the date of acquisition the balance sheet of Equitable Revenue Holdings Ltd had net liabilities, after adjusting for the preference shares in accordance with FRS 4, and consequently our share of the net assets at the time of acquisition has been taken as £nil. There were no adjustments to the fair value of the net assets acquired and the additional goodwill on the investment in Equitable Revenue Holdings Ltd is £755,000. The Group also paid further deferred consideration of £1,065,000 on 9th September 1996 in respect of the acquisition of Sims Holdings Ltd. The remaining deferred consideration of £2,301,000 in respect of the acquisition of Sims Holdings Ltd has been provided for in 1996, with payment being due in 1997.

The fair value adjustments reflect the Group's estimate of the expected useful lives of the fixed assets to the Group, and the recoverability of debtor balances.

The goodwill arising on the acquisitions was as follows:	£ 000's
Estatecare Group Ltd	866
Recruitment and Assessment Services Ltd	7,231
Deferred consideration on Sims Holdings Ltd	3,366
Other acquisitions in the year	121
	11,584

(23) Related party transactions

During the year charges were levied by the Group against associated undertakings of £658,751 and non wholly owned subsidiary undertakings of £496,323 for services provided in the ordinary course of business. In addition the company provided long term working capital to DriveSafe Services Ltd, the balance owed by DriveSafe Services Ltd at 31st December 1996 was £1,000,000. Capita Managed Services Ltd provided working capital of £25,000 to OAO/ICOR (UK) Ltd by way of an unsecured loan note (to be redeemed no later than September 2001). Interest is charged at commercial rates and paid monthly in arrears on both working capital loans.

Avern Data Management Services Ltd is a subsidiary of DriveSafe Services Ltd and therefore the purchase of the data preparation business is classified as a related party transaction. The purchase consideration paid by Capita Managed Services Ltd was £50,000.

(24) Pension commitments

The Group operates a number of pension schemes. These schemes include both defined benefit and defined contribution. The assets of the schemes are held separately from those of the Group in independently invested funds.

In respect of the defined contribution pension schemes, the pension charge represents contributions payable by the Group amounting to £751,000 (1995 £639,000). The pension schemes creditor at the year end was £4,000 (1995 £103,000).

The defined benefit schemes are funded and the pension cost for the Group for 1996 was £1,311,000 (1995 £544,000). The schemes are valued triennially by qualified independent actuaries to determine pension costs, the last valuation was performed in 1994). The actuarial method used for these valuations is the projected unit method. For accounting purposes, the major assumptions were: rate of return of assets 9%; wages and salaries increase 6-8%; future dividend growth of UK equities 4.5%. Surpluses or deficits on the pension schemes arising from the actuarial valuations are spread over the average service lives of the members of the relevant scheme on a straight line basis. The market values of the schemes' assets, based on the latest actuarial valuations (all within the last three years), totalled approximately £5.3m. The actuarial value of all the significant schemes was sufficient to cover approximately 109% of the benefits that had accrued to members after allowing for expected future increases in wages and salaries. The pension schemes creditor at the year end was £333,000 (1995 £241,000).

(25) Post balance sheet events

Since 31st December 1996 the Group has made further acquisitions. On 13th February 1997 the Group purchased the 40% holding in Estatecare Group Ltd by the issue of 365,000 new ordinary shares of The Capita Group Plc, making the company a wholly owned subsidiary undertaking. On 13th February 1997 the Group agreed to acquired the Revenues Collection Division of Imasys Ltd for a consideration of £2,750,000. The division provides cash receipting and income management systems. Further consideration of up to £1,000,000 may be payable in the event that certain profit targets are reached. On the 21st February 1997 the Group acquired the business of Hartshead Solway Ltd, a provider of pension administration services for a consideration of £4,350,000 and the Group also acquired the 50% holding in Drivesafe Services Ltd (making the company a wholly owned subsidiary undertaking) for a consideration of £10,000,000 with an additional £5,000,000 contingent consideration.

Principal Group investments

Capita Managed Services	Taking complete responsibility under long term contracts for the provision of white collar services on behalf of customers
Chalice Group	Providing a full range of non-clinical support services to hospital trusts
Sims	Providing software systems and support services to educational institutions
Academy	Providing software to Local Government and its service providers
Recruitment and Assessment Services	Providing recruitment services to the public and private sectors
Equitable Revenue Holdings Associated undertaking	Professional debt collection and bailiff services
DriveSafe Services Associated undertaking	Running the Driving Theory Test on behalf of the Driving Standards Agency
OAO/ICOR Associated undertaking	I.T. outsourcing services
Capita Management Consultancy	Assisting with the definition and implementation of change in both the public and private sectors
Capita Recruitment Services	Providing professional interim managers to clients in the public and private sectors
Ripa International	Providing international public sector training and consultancy. Incorporates Capita Training which runs leading edge seminars for the UK public sector
Capita Corporate Finance	Offering innovative public and private sector corporate finance services including management buy-outs. A member of the Securities and Futures Authority
Penn Communications	Specialists in public relations, marketing, corporate communications and publishing
Beard Dove	Providing a comprehensive range of project management and construction related consultancy services
EDM Architects	Architectural planning, interior design and cost consultancy services
Greatorex	Providing building services and consulting engineering advice to the public and commercial sectors
Estatecare Group	Providing a comprehensive range of property consulting services

Five Year Summary

for the years ended 31st December

	1996	1995	1994	1993	1992
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Group balance sheet					
Fixed assets	6,928	6,933	6,412	5,047	3,124
Current assets	44,587	32,640	30,187	19,466	18,544
	51,515	39,573	36,599	24,513	21,668
Creditors	(40,308)	(30,078)	(28,221)	(17,625)	(12,868)
	11,207	**9,495**	**8,378**	**6,888**	**8,800**
Capital and reserves	10,511	8,819	7,628	6,888	8,540
Minority interests	696	676	750	-	260
	11,207	**9,495**	**8,378**	**6,888**	**8,800**
Group profit and loss account					
Turnover	**111,869**	**86,994**	**73,800**	**50,168**	**33,098**
Profit before interest	11,965	9,107	7,682	5,003	3,716
Net interest receivable	327	313	221	460	690
Profit before taxation	12,292	9,420	7,903	5,463	4,406
Taxation	(4,010)	(2,901)	(2,452)	(1,577)	(1,278)
Minority interests	(180)	(48)	(40)	(89)	(179)
Dividends	(2,771)	(2,171)	(1,810)	(1,245)	(993)
Retained profit	**5,331**	**4,300**	**3,601**	**2,552**	**1,956**
Earnings per ordinary share	14.3p	11.8p	10.5p	7.9p	6.4p
Dividend per ordinary share	4.8p	3.9p	3.3p	2.55p	2.10p

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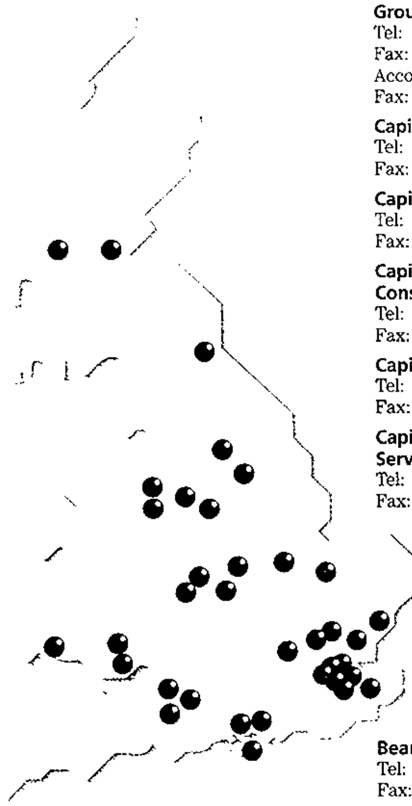

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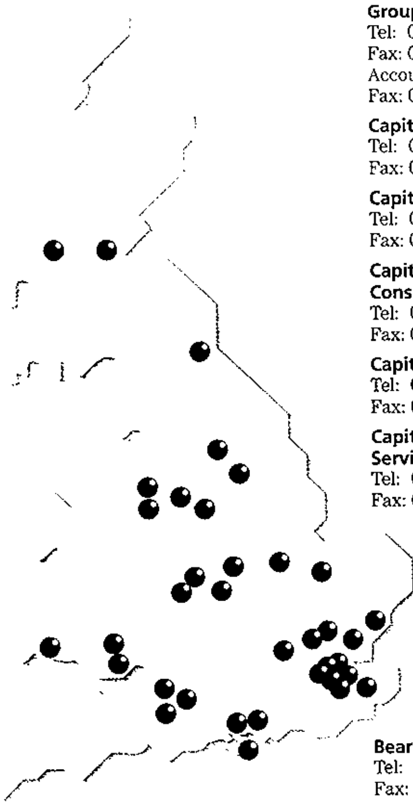

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