Report and Accounts

The Capita Group Plc

31 December 2001

THE CAPITA GROUP PLC
Registered number 2081330

COMPANY INFORMATION

DIRECTORS
R Aldridge OBE
G M Hurst
P Doyle
R Alcock
P Cawdron
E Walters
P R M Pindar

SECRETARY
G M Hurst

AUDITORS
Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS
Barclays Bank PLC
154 Lombard Street
London EC3V 9EX

SOLICITORS
Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

REGISTERED OFFICE
61-71 Victoria Street
London SW1H 0XA

Directors' Report

The Directors present their report and the audited Group accounts for the year ended 31st December 2001.

Group activities

The Capita Group Plc is a leading professional support services organisation in the UK.

Capita provides an integrated range of white-collar, professional support services on long term contracts across local government, central government, education and the private sector in the UK.

We aim to improve service quality on behalf of our clients and to reduce their costs of delivery. The services we provide are essential to the smooth running and success of our clients' operations.

Our strength is our ability to draw on a wide base of professional expertise to generate, and successfully implement, tailored services. Capita's ability spans leading edge frontline customer service, back office administration services, HR services, IT and strategic support, software services and property consultancy. Our principal activities are managed through three divisions comprising business services, commercial services and professional services.

Profits and dividends

The Group profit on ordinary activities before taxation amounted to £53,026,000 (2000: £39,974,000). The Directors recommend a final dividend of 1.5p per share (2000: 1.1p per share) to be paid on 26th April 2002 to ordinary shareholders on the register on 2nd April 2002. This gives a total dividend for the year of 2.25p per share (2000: 1.65p per share).

Directors

The Directors of the Company currently in office are listed on the preceding page detailing Company information.

Mr R H Alcock and Mr P R M Pindar retire by rotation and, being eligible, offer themselves for re-election. 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 (all beneficial) of the Directors in the ordinary shares of the Company were as follows:

	31st December 2001 Ordinary shares of 2p	31st December 2000 Ordinary shares of 2p
R H Alcock	**28,810**	25,530
R M Aldridge OBE	**18,794,000**	18,744,000
P E B Cawdron	**24,000**	24,000
P M Doyle	**25,000**	25,000
G M Hurst	**28,221**	28,221
P R M Pindar	**3,000,000**	3,000,000
E Walters	**5,000**	—

The Directors have no interests in the share capital of any other Group undertaking.

The interests of the Directors under the share option schemes and the Long Term Incentive Plan of the Company are shown in the Report on Directors' Remuneration.

There is no change to Directors' interests during the period 1st January 2002 to 20th February 2002.

Directors' Report

Substantial shareholders

On 20th February 2002 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:

	Number of shares	Percentage
Prudential Plc	49,999,350	7.56
Janus Capital Corporation	32,243,676	4.87
Government of Singapore	25,867,043	3.91
Lloyds TSB Group	21,840,419	3.30
Putnam Investment Management LLC	20,707,990	3.13
Legal & General	20,105,094	3.04

European Monetary Union

Although the Group currently has very few suppliers or customers in other countries within the European Union, it continues to monitor the development of the Euro in so far as it impacts on the UK so that it can take appropriate action as and when required.

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.

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 management development programme. Employees receive news of the Group through *Recap*, the Group's newsletter, frequent email notices and 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. During the year the Group launched CAPITA*connect*, a Group-wide corporate intranet service, to facilitate greater communication within the Group. The service enables staff to share information within and between business units and encourages staff to contribute news, views and feedback.

The share option schemes have been a key factor in attracting, retaining and motivating senior employees across the Group. The Group grants share options to 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.

In addition the Group operates the Capita Employee Sharesave Scheme, an employee save as you earn scheme.

Payment of suppliers

The Company aims to pay suppliers in accordance with the suppliers' contract terms. The Company had an average of 40 days' purchases (2000: 39 days' purchases) outstanding in trade creditors.

Charitable and political donations

During the year charitable donations amounted to £117,000 (2000: £49,000). No political contributions were made.

Auditors

On 28th June 2001, Ernst & Young, the Company's auditor transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28th June 2001.

A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming Annual General Meeting.

By order of the Board
Gordon Hurst
Company Secretary
20th February 2002

Corporate Governance

The Group is committed to high standards of corporate governance for which the Board is accountable to the Company's shareholders. This statement describes how the principles of corporate governance are applied to the Group and the Group's compliance with the Code provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance.

Statement by the Directors on compliance with the provisions of the Combined Code
The Group has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year except that the Non-Executive Directors do not have fixed term appointments. They are, in accordance with the Articles of Association, subject to re-election every three years. The important point of principle is that the Non-Executive Directors continue to maintain a vigorous independence and the Board encourages such independence without reservation.

Going concern
After making enquiries, the Directors have a reasonable expectation that the Company and the 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.

The workings of the Board and its Committees
The Board
During the year the Board comprised the Executive Chairman, the Chief Executive, two other Executive Directors, the senior independent Non-Executive Director and two other independent Non-Executive Directors. These demonstrate a range of experience bringing independent judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group.

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out on page 2. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group.

The following committees deal with the specific aspects of the Group's affairs.

Nomination Committee
The Nomination Committee is chaired by Peter Cawdron and comprises the Non-Executive Directors and the Executive Chairman. The Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases recruitment consultants are used to assist the process. All Directors are subject to re-election at least every three years.

Remuneration Committee
The Remuneration Committee is responsible for making recommendations to the Board on the Company's framework of Executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the Non-Executive Directors. The Committee comprises the Non-Executive Directors, though the Executive Chairman attends meetings by invitation. The Committee is chaired by Peter Cawdron and is advised by a leading firm of remuneration consultants.

The report on Directors' remuneration is set out on pages 7 to 10.

Audit Committee
The Audit Committee comprises the Non-Executive Directors and is chaired by Robert Alcock. It meets not less than three times annually. The Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Executive Chairman, Chief Executive and Group Finance Director.

The Audit Committee is responsible for reviewing a wide range of financial matters including the half year and annual accounts before their submission to the Board and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee advises the Board on the appointment and independence of the external auditors and on their remuneration both for audit and non-audit work, and it also discusses the nature and scope of the audit with the external auditors.

Relations with shareholders
Communications with shareholders are given high priority. The Chairman's Statement includes a detailed review of the business and future developments. There is regular dialogue with institutional shareholders including presentations after the Company s preliminary announcement of the year end results and at the half year.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Board aims to ensure that all the Non-Executive Directors are available at Annual General Meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting in April 2002 can be found in the Notice of the Annual General Meeting.

Internal control
The Directors are responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The key procedures that the Directors have established are designed to provide effective internal control within the Group and accord with the Internal Control Guidance for Directors on the Combined Code issued by the Institute of Chartered Accountants in England and Wales. Such procedures have been in place throughout the year and up to 20th February 2002, the date of approval of the Annual Report and Accounts. In the case of companies acquired during the year, the internal controls in place in these companies have been reviewed against the Group's benchmarks since they were acquired and have been or are being integrated into the Group's systems.

The Group's key internal control procedures include the following:

- Authority to operate the various subsidiaries or business units within the Group is delegated to their respective managing directors within limits set by the Board of Directors of the Company or by the Group Executive Board under powers delegated by the Board. The appointment of executives to the most senior positions within the Group requires the approval of the Board of Directors of the Company or the Group Executive Board. Functional, operating and financial reporting standards are established by the Group Executive Board for application across the whole Group. These are supplemented by operating standards set by the local management, as required for the type of business and geographical location of each subsidiary and business unit.

- Systems and procedures are in place in the Group to identify, control and report on the major risks including credit, liquidity, operational error and fraud. Exposure to these risks is monitored by the management of the various subsidiaries or operating units and by the Group Executive Board for the Group as a whole and the Board is responsible for determining the appropriate course of action to manage those risks.

Corporate Governance

- Comprehensive annual financial plans are prepared by subsidiaries and business units and are reviewed and approved by the Group Executive Board and reviewed by the Board of Directors. Results are monitored regularly and reports on progress compared with plan are prepared throughout the Group each month. Financial accounting and reporting and certain management reporting standards are established for application across the whole Group. Capital expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Expenditure on acquisitions is only undertaken after full consideration by the Board. In addition the Group Executive Board has responsibility to set policies, procedures and standards in areas including finance; legal and regulatory compliance; internal audit; human resources; computer systems and operations; and property management.

- The internal audit function, which is centrally controlled, monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. The work of the internal audit function is focused on areas of greatest risk to the Group as determined by a risk management approach. The head of this function reports to the Group Finance Director and the Audit Committee.

- The Audit Committee monitors the controls which are in force and any perceived gaps in the control environment. The Audit Committee also considers and determines relevant action in respect of any control issues raised by the internal and external auditors.

The Board of Directors has kept under review the effectiveness of this system of internal control. The key processes used by the Board in carrying out its reviews include regular reports from the Group Executive Board, review of the group risk matrix, which covers all internal controls, at each monthly board meeting and any matters reported under the key risks on the matrix, internal audit reports, discussions with and reports from the external auditors and regulatory reports. In addition, the Divisional Operations Directors and Divisional Finance Directors provide annual confirmation that the divisions' internal controls and systems are designed to provide accurate financial information and to adequately safeguard, verify and maintain accountability of its assets; and that provision is made for all amounts known to be irrecoverable at the balance sheet date; and that accruals are accurately stated and, to the extent that they are known, all potential liabilities have been notified.

Social responsibility
The Company has been selected among the 95 UK companies listed in the first FTSE4Good Europe Index. The index is for the use of investors seeking companies with strong records of corporate social responsibility. It is primarily the Group's involvement in local communities across the UK which has led to the Group's inclusion. This represents a significant achievement given that the support services sector makes up a mere 0.31% of the index.

Environmental matters
The Company's business has a limited direct impact on the environment. However, it is conscious of the necessity to meet best practice wherever possible. This includes such matters as recycling of paper and the general conservation of resources as may be relevant.

Report on Directors' Remuneration

The Capita Group's Remuneration Committee is a Committee of the Group Board with terms of reference approved by the Group Board, established to determine the terms of employment and remuneration of the Executive Directors. The Committee membership is the three Non-Executive Directors.

The Executive Chairman attends meetings by invitation.

The Company has complied with the provisions of the Combined Code as relating to Directors' remuneration annexed to the Listing Rules of the Financial Services Authority.

Remuneration packages

(a) Overall policy

The Committee is of the view that because of the nature of the Capita Group's business, maintaining its growth and profit record and its developing characteristics justify an overall compensation policy with a strong performance related element. Accordingly, a cash and share based package has been designed to provide Directors with rewards that rest between the median and upper quartile ranges of comparable companies. The overall package is weighted to share based rewards, which the Committee believes strongly links the interests of the Directors and shareholders in respect of shareholder value. The Remuneration Committee has followed the provisions of Schedule A to the Combined Code.

(b) Basic salary, bonus and other remuneration

The Committee commissioned an independent review, by Meis Limited, of Group Board Directors' remuneration in November 1999. This study provided the context within which the Committee determined the compensation packages of the Executive Directors.

(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 before tax. In the judgement of the Committee, these performance conditions are relevant, stretching and designed to enhance the business.

The remuneration of the Group Board Directors, excluding restrictive share awards and gains made on the exercise of share options, is made up as follows:

	2001 £000's	2000 £000's
Basic salaries	**816**	723
Benefits	**24**	29
Bonus	**505**	439
Pension contributions to the Group's money purchase scheme	**115**	76
Fees	**64**	59
	1,524	1,326

Details of Group Board Directors' remuneration are as follows:

	Salary and fees £	Benefits £	Performance related bonus £	**Total 2001 £**	Total 2000 £	**Pension 2001 £**	Pension 2000 £
R M Aldridge OBE	253,000	22,024	151,800	**426,824**	369,683	**12,033**	10,427
P M Doyle	164,712	298	114,000	**279,010**	260,121	**58,334**	28,852
G M Hurst	146,500	298	95,100	**241,898**	213,283	**32,830**	27,202
P R M Pindar	252,000	983	144,000	**396,983**	347,281	**11,383**	9,877
R H Alcock*	20,000	—	—	**20,000**	20,000	**—**	—

Report on Directors' Remuneration

Details of Group Board Directors' remuneration (continued):

	Salary and fees £	Benefits £	Performance related bonus £	**Total 2001 £**	Total 2000 £	**Pension 2001 £**	Pension 2000 £
P E B Cawdron*	20,000	—	—	**20,000**	20,000	—	—
E Walters*	24,000	—	—	**24,000**	—	—	—
D Fowler CBE*	—	—	—	—	19,167	—	—

*Non-Executive Director

(d) Share option schemes
The Group has two share option schemes in existence, the 1997 Scheme, approved by shareholders in April 1997, and the Capita Employee Sharesave Scheme which was established in 2000. The 1997 scheme replaced the A Scheme and the B Scheme which were closed in April 1997.

The exercise of options granted under the 1997 Scheme is conditional on growth in Capita's earnings per share exceeding by 8% per annum the growth in the retail prices index over the three year period from grant.

The Directors' interests in share options are listed in section (g).

(e) Long Term Incentive Plan (LTIP)
The Group adopted The Capita Group Plc Long Term Incentive Plan (LTIP) at the Annual General Meeting of the Group on 16th April 1998.

Awards are structured as Restricted Share Awards and Indexed Performance Share Appreciation Rights (IPSARS).

Restricted Share Awards
Awards of Restricted Shares can be granted annually.

Restricted Share Awards are designed to deliver shares to participants three years after the date of award depending on the Company's Total Shareholder Return (TSR) relative to a comparator group of companies selected from the Support Services Sector over the three year performance period. Shares will only be released if the Company is ranked above the median in this comparator group with 5% of awards released at the 49th percentile, 50% of awards released at the 40th percentile and 100% of awards released at the 25th percentile or above.

If the Company's TSR ranking is below the median Restricted Share Awards lapse. In addition, no shares will be released if the Company's earnings per share growth has not exceeded RPI over the three year performance period.

Share Appreciation Rights (IPSARS)
Only one award of Share Appreciation Rights can be made to a participant under the LTIP. Share Appreciation Rights are designed like share options except that the exercise price to be paid by the participants increases pro rata with the FTSE All Share Index, a feature that ensures that participants only gain if the share price outperforms such index.

Share Appreciation Rights will be exercisable after five years provided that the Company's TSR ranking is at least at the upper quartile of the comparator group over the five year period when 40% vest. 100% of the Share Appreciation Rights vest if the Company's TSR ranking is at the 10th percentile or better.

If the Company's TSR ranking is below the upper quartile, the Share Appreciation Rights lapse. In addition, no Share Appreciation Rights will be exercisable unless the Company's earnings per share growth exceeds RPI over the five year period.

The granting of all awards made under the LTIP is subject to the approval of the Remuneration Committee.

The market price of The Capita Group Plc ordinary shares at the date of grant on 5th May 1998 was £1.69 and the FTSE All Share Index stood at 2817. At 31st December 2001 the FTSE All Share Index stood at 2524.

(f) Interests in shares awarded under the Long Term Incentive Plan

	Restricted Share Awards*	Entitlement date	IPSARS*	First release date	Date of award
R M Aldridge OBE	279,069	4th May 2001	1,200,000	4th May 2003	5th May 1998
P R M Pindar	265,116	4th May 2001	1,200,000	4th May 2003	5th May 1998
P M Doyle	—	—	1,200,000	4th May 2003	5th May 1998
G M Hurst	—	—	1,200,000	4th May 2003	5th May 1998

*Figures show maximum number of shares the subject of awards, the vesting of which being conditional on the achievement of performance requirements detailed at (e) above. No Restricted Share Awards were made in 2001. The performance requirements detailed in (e) above were met on 4th May 2001. Mr G M Hurst and Mr P M Doyle exercised their right to transfer shares as follows. Mr G M Hurst sold 174,417 shares transferred to him under the Restricted Share Award scheme on 4th May 2001. The market price per share on that date was £5.09 and the total gain was £887,782. Mr P M Doyle sold 209,301 shares transferred to him under the Restricted Share Award scheme on 4th May 2001. The market price per share on that date was £5.09 and the total gain was £1,065,342. Mr R M Aldridge OBE and Mr P R M Pindar have not exercised their right of transfer in respect of these shares. Had they exercised this right on 4th May 2001 the gains would have been £1,420,461 and £1,349,440 respectively.

(g) Interests in Executive Share Options are as follows:

	Exercise price (£)	At 1st January 2001	Granted in year	Exercised in year	**At 31st December 2001**	Exercisable (subject to performance) between:
R M Aldridge OBE	0.76	750,000	—	—	**750,000**	08.05.2000-08.05.2004
	0.71	225,000	—	—	**225,000**	25.02.2002-25.02.2007
	4.49	—	200,000	—	**200,000**	28.06.2004-28.06.2008
P M Doyle	0.76	300,000	—	300,000	**—**	08.05.2000-08.05.2004
	0.34	225,000	—	225,000	**—**	11.03.2001-11.03.2006
	0.71	171,000	—	—	**171,000**	25.02.2002-25.02.2007
	4.49	—	200,000	—	**200,000**	28.06.2004-28.06.2008
G M Hurst	0.76	300,000	—	300,000	**—**	08.05.2000-08.05.2004
	0.71	207,000	—	—	**207,000**	25.02.2002-25.02.2007
	4.49	—	200,000	—	**200,000**	28.06.2004-28.06.2008
P R M Pindar	0.76	750,000	—	300,000	**450,000**	08.05.2000-08.05.2004
	0.71	225,000	—	—	**225,000**	25.02.2002-25.02.2007
	4.49	—	200,000	—	**200,000**	28.06.2004-28.06.2008

Options with an exercise price of £0.34 relate to the B Scheme, the remainder relate to the 1997 Scheme.

Report on Directors' Remuneration

Mr G M Hurst exercised options on 16th March 2001 over a total of 300,000 shares with an aggregate exercise price of £0.76. The market price per share on the date of exercise was £4.84. The aggregate gain on the exercise of these options was £1,224,000. Mr P M Doyle exercised options on 16th March 2001 over 300,000 shares with an exercise price of £0.76 per share and over 225,000 shares with an aggregate exercise price of £0.34 per share. The market price per share on the date of exercise was £4.84. The aggregate gain on the exercise of these options were £1,224,000 and £1,013,000 respectively. Mr P R M Pindar exercised options on 16th March 2001 over a total of 300,000 shares with an aggregate exercise price of £0.76. The market price per share on the date of exercise was £4.84. The aggregate gain on the exercise of these options was £1,224,000. The total of the gains made on the exercise of share options was £4,685,000 (2000: £5,249,250 including £3,125,250 in respect of Mr P M Doyle, the highest paid Director).

The market price of the Company's shares on 31st December 2001 was 490.25p and the high and low prices during the year were 536p and 322p respectively.

(h) Interests in Capita Employee Sharesave Scheme

	Exercise price (£)	At 1st January 2001	Granted in the year	**At 31st December 2001**	Exercisable after
R M Aldridge OBE	4.66	2,078	—	**2,078**	31.10.2003
P R M Pindar	4.66	2,078	—	**2,078**	31.10.2003
R H Alcock	4.66	3,621	—	**3,621**	31.10.2005
P M Doyle	3.90	—	2,483	**2,483**	31.10.2004
G M Hurst	3.90	—	2,483	**2,483**	31.10.2004
E Walters	3.90	—	4,326	**4,326**	31.10.2006

The option price of the above being 80% of the market price at the date of grant. The options are exercisable, after the date given above, for a period of six months after completion of a three or five year savings period.

(i) Pensions
Pension contributions are made into the Group's defined contribution scheme based on salary only, details of which are set out in note 26 of the notes to the accounts.

(j) Service contracts
The service contracts for Group Board Directors do not provide for notice periods in excess of one year. Neither do they include provisions for pre-determined compensation on termination, which exceed one year's salary and benefits.

Non-Executive Directors
Non-Executive Directors' fees are reviewed annually and determined by the Executive Directors.

R M Aldridge OBE
Executive Chairman

P E B Cawdron
Chairman Remuneration Committee

20th February 2002

Group Profit and Loss Account
for the year ended 31st December 2001

	Notes	2001 Before goodwill £000's	2001 Goodwill amortisation £000's	2001 Total £000's	2000 Before goodwill £000's	2000 Goodwill amortisation £000's	2000 Total £000's
Turnover	2						
Continuing operations		**641,940**	—	**641,940**	453,348	—	453,348
Acquisitions		**49,263**	—	**49,263**	—	—	—
		691,203	—	**691,203**	453,348	—	453,348
Cost of sales	2	**483,463**	—	**483,463**	309,951	—	309,951
Gross profit		**207,740**	—	**207,740**	143,397	—	143,397
Administrative expenses	2	**130,665**	**19,106**	**149,771**	88,915	9,815	98,730
Operating profit	3						
Continuing operations		**73,873**	**(16,041)**	**57,832**	54,482	(9,815)	44,667
Acquisitions		**3,202**	**(3,065)**	**137**	—	—	—
Group operating profit		**77,075**	**(19,106)**	**57,969**	54,482	(9,815)	44,667
Share of operating loss in associates		—	—	—	(1,358)	(1,429)	(2,787)
Total operating profit: Group and share of associates		**77,075**	**(19,106)**	**57,969**	53,124	(11,244)	41,880
Net interest payable	5	**(4,943)**	—	**(4,943)**	(1,906)	—	(1,906)
Profit on ordinary activities before taxation	2	**72,132**	**(19,106)**	**53,026**	51,218	(11,244)	39,974
Tax on profit on ordinary activities	6	**20,797**	—	**20,797**	14,868	—	14,868
Profit on ordinary activities after taxation		**51,335**	**(19,106)**	**32,229**	36,350	(11,244)	25,106
Minority interest (equity)	17	**21**	—	**21**	—	—	—
Minority interest (non-equity)	17	**(48)**	—	**(48)**	(48)	—	(48)
Profit for the financial year		**51,308**	**(19,106)**	**32,202**	36,302	(11,244)	25,058
Dividends	8	**14,868**	—	**14,868**	10,763	—	10,763
Retained profit for the year		**36,440**	**(19,106)**	**17,334**	25,539	(11,244)	14,295
Earnings per share – Basic	9	**7.80p**	**(2.90)p**	**4.90p**	5.60p	(1.73)p	3.87p
– Diluted	9	**7.44p**	**(2.77)p**	**4.67p**	5.41p	(1.66)p	3.75p

Movements in reserves are shown in note 18.

Balance Sheets
at 31st December 2001

	Notes	Group 2001 £000's	Group 2000 £000's	Company 2001 £000's	Company 2000 £000's
Fixed assets					
Intangible assets	10	**403,008**	290,965	**—**	—
Tangible assets	11	**61,162**	37,155	**1,543**	714
Investments	12	**—**	450	**467,283**	374,836
		464,170	328,570	**468,826**	375,550
Current assets					
Trade investments	12	**5,822**	3,456	**132**	2,634
Debtors due within one year	13	**144,802**	109,933	**67,218**	46,466
Debtors due beyond one year	13	**972**	2,025	**52**	—
		151,596	115,414	**67,402**	49,100
Creditors: amounts falling due within one year	14	**236,499**	188,896	**117,708**	100,537
Net current liabilities		**(84,903)**	(73,482)	**(50,306)**	(51,437)
Total assets less current liabilities		**379,267**	255,088	**418,520**	324,113
Creditors: amounts falling due after more than one year	14	**79,064**	4,992	**77,474**	3,000
Provisions for liabilities and charges	15	**18,537**	2,949	**—**	—
		281,666	247,147	**341,046**	321,113
Capital and reserves					
Called up share capital	16	**13,230**	13,065	**13,230**	13,065
Shares to be issued	16	**5,426**	4,440	**5,426**	4,440
Share premium account	18	**237,601**	232,813	**237,601**	232,813
Merger reserve	18	**—**	—	**34,183**	22,884
Profit and loss account (net of goodwill written off)	18	**24,803**	(3,771)	**50,606**	47,911
Shareholders' funds (equity)		**281,060**	246,547	**341,046**	321,113
Minority interest (equity)	17	**6**	—	**—**	—
Minority interest (non-equity)	17	**600**	600	**—**	—
		281,666	247,147	**341,046**	321,113

The accounts were approved by the Board of Directors on 20th February 2002 and signed on its behalf by:

R M Aldridge OBE
Executive Chairman

G M Hurst
Group Finance Director

Group Cash Flow Statement

for the year ended 31st December 2001

	Notes	2001 £000's	2001 £000's	2000 £000's	2000 £000's
Cash flow from operating activities	22		**90,019**		68,910
Returns on investments and servicing of finance					
Dividends paid to minorities in subsidiaries		**(48)**		(48)	
Interest received		**1,108**		885	
Interest element of finance lease payments		**(65)**		(55)	
Interest paid		**(5,986)**		(1,400)	
Net cash outflow from returns on investments and servicing of finance			**(4,991)**		(618)
Taxation paid			**(22,756)**		(11,331)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(34,328)**		(17,178)	
Purchase of current asset investments		**(18)**		(2,500)	
Proceeds on sale of current asset investments		**1,915**		—	
Proceeds on sale of fixed assets		**938**		284	
Net cash outflow from capital expenditure and financial investment			**(31,493)**		(19,394)
Acquisitions and disposals					
Purchase of subsidiary undertakings	24	**(51,470)**		(73,276)	
Cash acquired with subsidiary undertakings	24	**13,265**		(4,024)	
Purchase of business	24	**(22,250)**		(2,534)	
Purchase consideration paid by subsidiary undertaking	24	**(4,606)**		(3,118)	
Accrued deferred consideration paid		**(1,107)**		—	
Pre-acquisition deferred consideration paid by subsidiary undertaking		**(325)**		(3,000)	
Purchase of interest in associated undertaking		**—**		(2,176)	
Net cash outflow from acquisitions and disposals			**(66,493)**		(88,128)
Equity dividends paid			**(12,131)**		(9,013)
Net cash outflow before use of financing			**(47,845)**		(59,574)
Financing					
Issue of ordinary share capital		**4,900**		103,322	
Share issue costs		**—**		(1,617)	
Factored debt		**—**		(1,186)	
Long term loans	23	**50,000**		—	
Capital element of finance lease rental payments	23	**(1,282)**		(828)	
Repayment of long term loans	23	**(12,050)**		(44,997)	
Net cash inflow from financing			**41,568**		54,694
Decrease in cash in the period	23		**(6,277)**		(4,880)

Group Statement of Total Recognised Gains and Losses
for the year ended 31st December 2001

	2001 £000's	2000 £000's
Profit attributable to the members of the parent undertaking	**32,202**	25,058
Exchange adjustments	**(59)**	(35)
Total recognised gains and losses	**32,143**	25,023
Prior year adjustment	**—**	934
Total recognised gains and losses since last annual report	**32,143**	25,957

Reconciliation of Movements in Shareholders' Funds
for the year ended 31st December 2001

	2001 £000's	2000 £000's
Total recognised gains and losses	**32,143**	25,023
Dividends	**(14,868)**	(10,763)
	17,275	14,260
New share capital subscribed	**16,252**	111,780
Share capital to be issued	**986**	4,440
Net movement to shareholders' funds	**34,513**	130,480
Opening shareholders' funds as previously reported	**246,547**	115,133
Prior year adjustment	**—**	934
Opening shareholders' funds as restated	**246,547**	116,067
Closing shareholders' funds	**281,060**	246,547

Notes to the Accounts

for the year ended 31st December 2001

1 Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts comply, to the extent detailed below, with the following new Financial Reporting Standards issued by the UK Accounting Standards Board.

FRS17 – Retirement benefits

This standard (which will come fully into force for accounting periods ending on or after 22nd June 2003) replaces the use of actuarial values for assets in a pension scheme with a market value approach. Fluctuations in market values are to be reflected in the statement of recognised gains and losses whilst the standard requires the profit and loss account to show the service cost, the interest cost and the expected return on scheme assets. The Group has complied with the transitional disclosure requirements of the standard.

FRS18 – Accounting policies

The Group complies with this standard which is concerned with the selection, application and disclosure of accounting policies in the accounts.

Compliance with the above new standards has not necessitated a restatement of figures reported for prior periods although a restatement in respect of FRS17 is anticipated when full compliance is required.

(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 exercises a significant influence, are treated as associated undertakings. The Group accounts include the appropriate share of the undertakings' results and reserves.

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

Goodwill arising on acquisitions made before 1st January 1998, which was previously transferred to a goodwill write-off reserve, has been eliminated against the merger reserve and the profit and loss account reserve and has not been reinstated on the implementation of FRS10. If a subsidiary is subsequently sold or closed, any goodwill that arose on the acquisition will be taken into account in determining the profit or loss arising.

Following the adoption of FRS10, goodwill arising on acquisitions made on or after 1st January 1998 is capitalised and classified as an asset on the balance sheet. It is amortised on a straight-line basis over its useful economic life, up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

(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 consultancy 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 Europe.

Notes to the Accounts
for the year ended 31st December 2001

1 Accounting policies (continued)

(e) Tangible fixed assets

Costs incurred in establishing a new or changed operation after contract award but before the delivery of outsourced services that meet the criteria for recognition as tangible fixed assets under FRS15 "Tangible Fixed Assets" are capitalised in tangible fixed assets. Such costs are amortised over the life of the asset, in order to match these costs against the associated revenues. Costs include staff costs outlays directly attributable to bringing the asset into a working condition for its intended use. Those costs that do not meet the criteria under FRS15 are recognised as an expense when they are incurred.

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

Freehold buildings	50 years
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

(f) Investments

Fixed asset investments are shown at cost, less provisions for impairment.

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

The carrying value of fixed assets investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

(g) Pension schemes

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.

(h) Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts 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.

(i) Deferred taxation

Deferred taxation is provided using the liability method on timing differences, including those relating to pensions, where reasonable probability exists that such taxation will crystallise in the foreseeable future. Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

1 Accounting policies (continued)

(j) 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.

(k) Long term property services 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 the proportion of the anticipated net sales value earned to date less billed 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.

(l) Employee Benefit Trust

The shares in the Company held by the Employee Benefit Trust are recorded in the balance sheet and are classified within fixed assets. The expected net cost of benefits is charged against profits over the performance period during which the benefits are earned by employees.

(m) Surplus properties

The Group provides on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

(n) National Insurance on share option gains

National Insurance on outstanding share options at the year end has been grossed up and shown as a provision and a receivable on the balance sheet.

Notes to the Accounts

for the year ended 31st December 2001

2 Segmental information

(a) Turnover and profit on ordinary activities before taxation

		Business Services £000's	Commercial Services £000's	Professional Services £000's	Total £000's
Turnover					
2001	**Continuing operations**	**305,459**	**138,258**	**259,401**	**703,118**
	Acquisitions	**4,585**	**44,059**	**619**	**49,263**
		310,044	**182,317**	**260,020**	**752,381**
	Inter-segment sales	**(12,716)**	**(928)**	**(47,534)**	**(61,178)**
	Third party sales	**297,328**	**181,389**	**212,486**	**691,203**
2000	Continuing operations	247,461	40,124	191,530	479,115
	Inter-segment sales	(2,928)	—	(22,839)	(25,767)
	Third party sales	244,533	40,124	168,691	453,348
Profit before tax					
2001	**Continuing operations**	**29,124**	**18,684**	**26,065**	**73,873**
	Acquisitions	**596**	**2,749**	**(143)**	**3,202**
	Segment profit before goodwill amortised	**29,720**	**21,433**	**25,922**	**77,075**
	Goodwill amortised	**(4,944)**	**(11,144)**	**(3,018)**	**(19,106)**
	Segment profit after goodwill amortised	**24,776**	**10,289**	**22,904**	**57,969**
	Interest payable				**(4,943)**
	Total				**53,026**
2000	Continuing operations	25,739	6,542	22,201	54,482
	Goodwill amortised	(3,735)	(4,094)	(1,986)	(9,815)
	Profit after goodwill amortised	22,004	2,448	20,215	44,667
	Associated undertakings – operating loss				(1,358)
	– goodwill amortised				(1,429)
	Interest payable				(1,906)
	Total				39,974

2 Segmental information (continued)

The results of the Group are now reported under three divisions, which differ from those reported in the accounts for the year ended 31st December 2000. The Commercial Services division has been expanded to include Capita Eastgate and the acquisitions of Capita McLarens Limited (formerly McLaren Dick & Company Limited) and Capita Trust Company Limited (formerly Royal & Sun Alliance Trust Company Limited). The Customer Services and Human Resources divisions have been merged under a new Business Services division to take advantage of synergies within the businesses. Recall Recruitment Limited and the learning and development business of the Industrial Society, both acquisitions in the year have been included within this division. A Professional Services division has been formed bringing together the Property Services and Software, Systems and Strategic Services divisions and the acquired business of MyShares Limited with some businesses previously reported under the Commercial Services division. The effect of the above on the 2000 comparatives, was firstly to reduce Business Services turnover by £15,742,000 and operating profit before goodwill by £954,000, and increase net assets by £40,242,000. Secondly, to increase Commercial Services turnover by £763,000 and reduce operating profit before goodwill by £1,013,000, and reduce net assets by £44,614,000. Thirdly, to increase Professional Services turnover by £14,979,000 and operating profit before goodwill by £1,967,000, and net assets by £4,372,000.

Included within turnover from acquisitions is £3,833,000 in respect of Recall Recruitment Limited, £619,000 in respect of MyShares Limited, £39,869,000 in respect of Capita McLarens Limited (formerly McLaren Dick & Company Limited), £752,000 in respect of the Industrial Society business, and £4,190,000 in respect of Capita Trust Company Limited (formerly Royal & Sun Alliance Trust Company Limited).

Other minor acquisitions during the year have been completely integrated within existing businesses of the Group. Accordingly, it is not possible to determine their post acquisition results.

		Business Services £000's	Commercial Services £000's	Professional Services £000's	Total £000's
Net assets					
2001	**Continuing operations**	**16,042**	**(12,628)**	**23,242**	**26,656**
	Acquisitions	**713**	**(7,425)**	**(4,731)**	**(11,443)**
	Net operating assets excluding goodwill	**16,755**	**(20,053)**	**18,511**	**15,213**
	Goodwill	**113,856**	**238,681**	**50,471**	**403,008**
	Net operating assets including goodwill	**130,611**	**218,628**	**68,982**	**418,221**
	Non-operating liabilities				**(136,555)**
					281,666
2000	Continuing operations	22,058	(23,734)	33,098	31,422
	Goodwill	83,059	172,166	35,740	290,965
	Net operating assets including goodwill	105,117	148,432	68,838	322,387
	Associated undertakings				75
	Non-operating liabilities				(75,315)
					247,147

Non-operating liabilities comprise taxation and dividend liabilities and net debt.

Notes to the Accounts
for the year ended 31st December 2001

2 Segmental information (continued)
Included in 'Continuing operations' above within the Property Services division is £nil (2000: £1,739,000) of turnover generated in Europe, and £nil profit or loss before tax (2000: £9,000 loss before tax) generated in Europe. These operations ceased in the previous year. A small amount of turnover and profit before tax was generated within the Republic of Ireland but otherwise all other turnover and profit before tax was generated within the United Kingdom. The net assets of the Group are based in the United Kingdom apart from a small amount of net assets based in the Republic of Ireland (2000: net liabilities of £389,000 in Europe).

(b) Analysis of operating profit

	2001			2000	
	Continuing £000's	**Acquisitions £000's**	**Total £000's**	Continuing £000's	Total £000's
Cost of sales	**448,659**	**34,804**	**483,463**	309,951	309,951
Administrative expenses	**138,514**	**11,257**	**149,771**	98,730	98,730
	587,173	**46,061**	**633,234**	408,681	408,681

Included within cost of sales on acquisitions is £1,133,000 in respect of Recall Recruitment Limited, £749,000 in respect of MyShares Limited, £32,537,000 in respect of Capita McLarens Limited (formerly McLaren Dick & Company Limited), £372,000 in respect of the Industrial Society business, and £13,000 in respect of Capita Trust Company Limited (formerly Royal & Sun Alliance Trust Company Limited).

Included within administrative expenses on acquisitions is £2,106,000 in respect of Recall Recruitment Limited, £13,000 in respect of MyShares Limited, £5,674,000 in respect of Capita McLarens Limited (formerly McLaren Dick & Company Limited), £378,000 in respect of the Industrial Society business, and £3,086,000 in respect of Capita Trust Company Limited (formerly Royal & Sun Alliance Trust Company Limited).

3 Operating profit

(a) This is stated after charging/(crediting):	**2001 £000's**	2000 £000's
Staff costs (see note 4)	**262,287**	177,680
Auditors' remuneration – statutory audit*	**464**	330
– other UK fees	**132**	99
Operating lease costs – land and buildings	**13,114**	8,178
– plant and machinery	**9,586**	9,517
(Profit)/loss on sale of fixed assets	**(550)**	75
Profit on sale of current asset investment	**(169)**	—
Depreciation	**15,440**	9,379
Amortisation of goodwill	**19,106**	11,244

*£17,000 (2000: £15,000) of this relates to the Company.

Other UK fees paid to the auditors include fees in relation to taxation of £74,000 (2000: £nil)

In addition due diligence fees paid to the auditors of £165,000 (2000: £78,000) were capitalised as part of the cost of acquisitions.

(b) Details of Directors' remuneration are contained within the Report on Directors' Remuneration on pages 7 to 10.

4 Staff costs

Staff costs, including Directors, comprise:	2001 £000's	2000 £000's
Wages and salaries	**230,504**	158,294
Social security costs	**19,908**	13,835
Other pension costs	**11,875**	5,551
	262,287	177,680

The average number of employees during the year was made up as follows:	2001 Number	2000 Number
Sales	**287**	216
Administration	**1,169**	665
Operations	**9,570**	6,465
	11,026	7,346

5 Net interest payable

	2001 £000's	2000 £000's
Loan note interest	**2,415**	1,918
Bank loans and overdrafts	**3,334**	659
Finance charges payable under finance leases	**65**	55
Unwinding of interest on discounted property provision	**165**	71
Other interest payable	**72**	49
Bank interest receivable	**(595)**	(337)
Other interest receivable	**(513)**	(509)
	4,943	1,906

6 Tax on profit on ordinary activities

The charge for the year is made up as follows:	2001 £000's	2000 £000's
Corporation tax at 30% (2000: 30%)	**22,170**	15,907
Adjustment to prior years	**(1,373)**	(1,039)
	20,797	14,868

Notes to the Accounts

for the year ended 31st December 2001

7 Profit attributable to members of the parent undertaking

The profit dealt with in the accounts of the parent undertaking was £2,695,000 (2000: £15,326,000).

8 Dividends

	2001 £000's	2000 £000's
Ordinary shares (equity) – Interim paid	**4,946**	3,578
– Final proposed	**9,922**	7,185
	14,868	10,763
Preference dividend payable to minorities (non-equity)	**48**	48

9 Earnings per share

Earnings per share is calculated on the basis of earnings of £32,202,000 (2000: £25,058,000) and on the weighted average of 657,517,000 (2000: 648,030,000) shares in issue during the year, excluding the shares held in the Employee Benefit Trust.

The diluted profit for the year is based on profit for the year of £32,250,000 (2000: £25,106,000), being profit for the year after adjusting for dividends payable of £48,000 (2000: £48,000) on the convertible preference shares of a subsidiary undertaking. The number of ordinary shares of 690,076,000 (2000: 672,478,000) is calculated as follows:

	2001 000's	2000 000's
Basic weighted average number of shares	**657,517**	648,030
Dilutive potential ordinary shares:		
Employee share options	**28,929**	21,037
Shares to be issued in respect of deferred consideration	**1,107**	888
Convertible preference shares of a subsidiary undertaking	**2,523**	2,523
	690,076	672,478

The additional earnings per share figures shown on the profit and loss account are calculated based on earnings before the impact of goodwill amortisation. They are included as they provide a better understanding of the underlying trading performance of the Group.

10 Intangible fixed assets

Group

Cost	Goodwill £000's
1st January 2001	303,824
Additions	131,149
31st December 2001	**434,973**
Amortisation	
1st January 2001	12,859
Charge for the year	19,106
31st December 2001	**31,965**
Net book value:	
1st January 2001	290,965
31st December 2001	**403,008**

11 Tangible fixed assets

(a) Group	Freehold land and buildings £000's	Long leasehold land and buildings £000's	Computer equipment £000's	Furniture, fixtures and equipment £000's	Short term leasehold improvements £000's	Motor vehicles £000's	Total £000's
Cost							
1st January 2001	1,616	338	38,491	8,628	9,278	1,559	59,910
Subsidiaries acquired	590	—	822	1,035	51	2,392	4,890
Additions	322	—	30,932	1,823	1,411	457	34,945
Disposals	—	—	(2,605)	(1,320)	(1,726)	(813)	(6,464)
31st December 2001	**2,528**	**338**	**67,640**	**10,166**	**9,014**	**3,595**	**93,281**
Depreciation							
1st January 2001	117	43	13,710	4,773	3,841	271	22,755
Charge for the year	159	6	9,842	2,028	2,060	1,345	15,440
Disposals	—	—	(2,574)	(1,306)	(1,724)	(472)	(6,076)
31st December 2001	**276**	**49**	**20,978**	**5,495**	**4,177**	**1,144**	**32,119**
Net book value:							
1st January 2001	1,499	295	24,781	3,855	5,437	1,288	37,155
31st December 2001	**2,252**	**289**	**46,662**	**4,671**	**4,837**	**2,451**	**61,162**

The net book value of motor vehicles includes an amount of £930,000 (2000: £1,022,000), computer equipment an amount of £38,000 (2000: £210,000), and furniture, fixtures and equipment an amount of £690,000 (2000: £516,000) in respect of assets held under finance leases and hire purchase contracts.

Notes to the Accounts

for the year ended 31st December 2001

11 Tangible fixed assets (continued)

The depreciation charged in the year with respect to these assets held under finance leases and hire purchase contracts amounted to £290,000 (2000: £270,000) for motor vehicles, £163,000 (2000: £338,000) for computer equipment and £160,000 (2000: £87,000) for furniture, fixtures and equipment.

(b) Company	Computer equipment £000's	Furniture, fixtures and equipment £000's	Short term leasehold improvements £000's	Motor vehicles £000's	Total £000's
Cost					
1st January 2001	601	143	474	—	1,218
Transfers from subsidiary undertaking	638	—	110	—	748
Additions	433	15	101	8	557
31st December 2001	**1,672**	**158**	**685**	**8**	**2,523**
Depreciation					
1st January 2001	258	67	179	—	504
Charge for the year	359	23	92	2	476
31st December 2001	**617**	**90**	**271**	**2**	**980**
Net book value:					
1st January 2001	343	76	295	—	714
31st December 2001	**1,055**	**68**	**414**	**6**	**1,543**

12 Investments

Fixed asset investments

(a) Group	Associated undertaking share of net tangible assets £000's	Employee Benefit Trust £000's	Total £000's
Cost			
1st January 2001	75	2,409	2,484
Transfer on acquisition of associate undertaking	(75)	—	(75)
31st December 2001	**—**	**2,409**	**2,409**
Amortisation			
1st January 2001	—	2,034	2,034
Charge for the year	—	375	375
31st December 2001	**—**	**2,409**	**2,409**
Net book value:			
1st January 2001	75	375	450
31st December 2001	**—**	**—**	**—**

12 Investments (continued)

Fixed asset investments (continued)

(b) Company	Shares in subsidiary undertakings £000's	Loan stock in subsidiary undertakings £000's	Employee Benefit Trust £000's	Total £000's
Cost				
1st January 2001	127,160	247,301	2,409	376,870
Additions	93,748	—	—	93,748
Transfer of investment to subsidiary undertakings	(3,426)	—	—	(3,426)
Transfer from current asset investments	2,500	—	—	2,500
31st December 2001	**219,982**	**247,301**	**2,409**	**469,692**
Amortisation				
1st January 2001	—	—	2,034	2,034
Charge for the year	—	—	375	375
31st December 2001	**—**	**—**	**2,409**	**2,409**
Net book value:				
1st January 2001	127,160	247,301	375	374,836
31st December 2001	**219,982**	**247,301**	**—**	**467,283**

The number of ordinary shares held by the Employee Benefit Trust is 544,185 (2000: 927,903), nominal value £11,000 (2000: £19,000). The Employee Benefit Trust was established in May 1998 to purchase shares in the Company in order to hedge certain future obligations of the Group for shares awarded under the Long Term Incentive Plan (as detailed in the Report on Directors' Remuneration). The market value of the shares, which are all listed in the UK, at 31st December 2001 was £2,667,000 (2000: £4,640,000). During the year Mr G M Hurst and Mr P M Doyle received shares awarded under the Long Term Investment Plan amounting to 174,417 and 209,301 respectively (details of this transaction are given in the Report on Directors' Remuneration). The dividends on these shares have been waived.

Principal Group investments	Country of registration and operation	Proportion of nominal value of issued shares held by the Company	Description of shares held
Capita Business Services Limited	England	100%	Ordinary £1 shares
Now including the business of:			
Educational Support Services Limited*	England	100%	Ordinary £1 shares
MyShares Limited*	England	100%	Ordinary £1 shares
Recall Recruitment Limited*	England	100%	Ordinary £1 shares
Capita McLarens Limited (formerly McLaren Dick & Company Limited)	Scotland	100%	Ordinary £1 shares
Capita IRG Plc*	England	100%	Ordinary £1 shares
Capita IRG Trustees Limited*	England	100%	Ordinary £1 shares
Capita Property Consultancy Limited*	England	100%	Ordinary £1 shares
Capita Eastgate Group Limited*	England	100%	Ordinary 10p shares

Notes to the Accounts
for the year ended 31st December 2001

12 Investments (continued)

Principal Group investments	Country of registration and operation	Proportion of nominal value of issued shares held by the Company	Description of shares held
Capita Eastgate Insurance Services Limited*	England	100%	Ordinary £1 shares
Eastgate Assistance (Wills) Limited*	England	100%	Ordinary £1 shares
Equita Limited	England	100%	Ordinary 80p shares
MPM Capita Limited*	Scotland	100%	Ordinary £1 shares
Roscoe Capita Limited*	England	100%	Ordinary £1 shares
Capita Trust Company Limited* (formerly Royal & Sun Alliance Trust Company Limited)	England	100%	Ordinary £1 shares

*Indirectly held.

The activities of Group undertakings are given on page 40.

Current asset investments	Group £000's	Company £000's
1st January 2001	3,456	2,634
Additions	18	16
Disposals	(1,746)	(6)
Held by companies acquired	6,606	—
Transfer to shares in subsidiary undertakings	(2,500)	(2,500)
Provisions	(12)	(12)
31st December 2001	**5,822**	**132**

Included within the above is an amount of £4,680,000 (2000: £nil) held in a cash investment fund. None of the remaining investments are listed.

13 Debtors

	Group		Company	
Debtors due within one year	**2001 £000's**	2000 £000's	**2001 £000's**	2000 £000's
Trade debtors	**92,384**	68,648	**57**	15
Amounts recoverable on contracts	**3,492**	1,887	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**53,370**	37,311
Other taxes and social security	**—**	—	**108**	—
Taxation recoverable	**435**	872	**11,483**	7,720
Other debtors	**5,608**	3,365	**1,450**	313
Prepayments and accrued income	**42,883**	35,161	**750**	1,107
	144,802	109,933	**67,218**	46,466

13 Debtors (continued)

Debtors due beyond one year	Group 2001 £000's	Group 2000 £000's	Company 2001 £000's	Company 2000 £000's
Other debtors	**114**	674	**—**	—
Prepayments and accrued income	**858**	1,351	**52**	—
	972	2,025	**52**	—

The unprovided deferred tax asset in respect of depreciation charged in advance of capital allowances and other timing differences is £4,179,000 (2000: £4,363,000).

14 Creditors

Amounts falling due within one year	Group 2001 £000's	Group 2000 £000's	Company 2001 £000's	Company 2000 £000's
Bank overdraft and short term loan	**9,447**	3,170	**70,753**	42,331
Trade creditors	**18,639**	21,615	**689**	795
Other creditors	**18,809**	10,181	**1,776**	1,224
Current corporation tax	**15,837**	16,615	**—**	—
Unsecured loan notes	**27,713**	44,636	**27,713**	44,636
Other taxes and social security	**36,283**	21,995	**—**	214
Obligations under finance leases	**772**	763	**—**	—
Accruals and deferred income	**95,629**	61,581	**3,455**	3,045
Deferred consideration	**3,400**	1,107	**3,400**	1,107
Proposed dividends	**9,970**	7,233	**9,922**	7,185
	236,499	188,896	**117,708**	100,537

Amounts falling due after more than one year	Group 2001 £000's	Group 2000 £000's	Company 2001 £000's	Company 2000 £000's
Obligations under finance leases	**781**	770	**—**	—
Unsecured loan notes	**22,470**	3,000	**22,470**	3,000
Long term debt	**50,000**	—	**50,000**	—
Accruals and deferred income	**502**	1,050	**—**	—
Deferred consideration	**5,004**	—	**5,004**	—
Other creditors	**307**	172	**—**	—
	79,064	4,992	**77,474**	3,000

The obligations under finance leases all fall due within two to five years and are secured on the assets being financed.

The bank overdraft, short term loan and long term debt are unsecured.

Notes to the Accounts
for the year ended 31st December 2001

15 Provisions for liabilities and charges

Group	Pension £000's	Property and other £000's	Total provisions £000's
1st January 2001	—	2,949	2,949
Acquired with companies during the year	13,300	2,634	15,934
Transfer from other creditors	562	—	562
Utilisation	—	(1,073)	(1,073)
Unwinding of interest on the discounted property provision	—	165	165
31st December 2001	**13,862**	**4,675**	**18,537**

The provision is made on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

This expenditure is expected to be incurred over the remaining periods of the leases, which range from one to six years. Provisions established in prior years relating to prior year acquisitions are being used for their intended purpose.

16 Share capital

(a) Called up share capital

	2001		2000	
	Number 000's	£000's	Number 000's	£000's
Authorised ordinary shares of 2p each	**1,000,000**	**20,000**	1,000,000	20,000
Allotted, called up and fully paid				
Ordinary shares of 2p each	**661,483**	**13,230**	653,247	13,065

Changes in allotted, called up and fully paid ordinary share capital in the year

(i) On 14th February 2001, the Company issued and allotted 27,000 shares at a market price of £4.91, credited as fully paid, pursuant to the settlement of deferred consideration due on the acquisition of Capstan Limited, acquired in 2000. The value received in respect of the shares was £130,000 (aggregate nominal value £1,000 giving rise to merger relief of £129,000).

(ii) On 29th June 2001, the Company issued and allotted 1,513,000 shares at a market price of £4.66, credited as fully paid, pursuant to the acquisition of Capita McLarens Limited (formerly McLaren Dick & Company Limited). The value received in respect of the shares was £7,041,000 (aggregate nominal value £30,000 giving rise to merger relief of £7,011,000).

(iii) On 4th September 2001, the Company issued and allotted 233,000 shares at a market price of £4.30, credited as fully paid, pursuant to the acquisition of the remaining share capital of Capita DBS Limited. The value received in respect of the shares was £1,000,000 (aggregate nominal value £5,000 giving rise to merger relief of £995,000).

(iv) On 1st October 2001, the Company issued and allotted 862,000 shares at a market price of £3.69, credited as fully paid, pursuant to the settlement of deferred consideration due on the acquisition of Capita Eastgate Group Limited, acquired in 2000. The value received in respect of the shares was £3,181,000 (aggregate nominal value £17,000 giving rise to merger relief of £3,164,000).

(v) During the year, 5,601,000 shares (nominal value £112,000) were allotted under share option schemes for a total consideration of £4,900,000.

16 Share capital (continued)

(b) Shares to be issued

Shares to the value of £2,000,000 and £3,426,000 respectively, are payable as additional consideration to the vendors of MPM Capita Limited and Roscoe Capita Limited based on the achievement of performance criteria.

Contingent rights for the allotment of shares

At 31st December 2001, 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
215,000	£0.11	Between 31st March 1997 and 31st March 2002
180,000	£0.23	Between 3rd March 1999 and 3rd March 2004
234,000	£0.18	Between 19th August 1999 and 19th August 2004
9,000	£0.71	Between 25th February 2000 and 25th February 2007
404,250	£0.16	Between 7th April 2000 and 7th April 2005
1,359,000	£0.76	Between 8th May 2000 and 8th May 2004
57,000	£0.97	Between 6th October 2000 and 6th October 2004
3,000	£1.13	Between 17th November 2000 and 17th November 2004
1,054,000	£1.18	Between 24th February 2001 and 24th February 2005
217,500	£0.34	Between 11th March 2001 and 11th March 2006
413,000	£1.83	Between 28th July 2001 and 28th July 2005
1,081,000	£0.37	Between 1st August 2001 and 1st August 2006
2,204,217	£2.13	Between 11th February 2002 and 11th February 2006
100,818	£2.03	Between 19th February 2002 and 19th February 2006
2,074,500	£0.71	Between 25th February 2002 and 25th February 2007
1,154,079	£2.30	Between 29th July 2002 and 29th July 2006
3,528,588	£4.52	Between 22nd February 2003 and 22nd February 2007
434,253	£4.03	Between 17th April 2003 and 17 April 2007
607,961	£5.35	Between 22nd August 2003 and 22nd August 2007
2,518,084	£4.54	Between 26th February 2004 and 26th February 2008
4,807,000	£4.49	Between 28th June 2004 and 28th June 2008
1,128,117	£4.65	Between 27th July 2004 and 27th July 2008

During the year the Company granted further options under The Capita Employee Sharesave Scheme, an employee save as you earn scheme which are not included in the analysis above. At 31st December 2001 the number of options granted under the 2000 grant were over 1,509,956 (2000: 2,499,620) shares at an option price of £4.66, and under the 2001 grant were over 3,792,432 shares at an option price of £3.90. In both schemes the option price is 80% of the market price of the shares at the date of grant. The options are exercisable for a six month period after completion of a three or five year savings period.

Notes to the Accounts

for the year ended 31st December 2001

17 Minority interest

	2001 £000's	2000 £000's
Minority interest		
– equity	**6**	—
– non equity	**600**	600

The minority interest (non equity) of £600,000 (2000: £600,000) represents preference shares of a subsidiary. Shares to the nominal value of £600,000 are 8% convertible redeemable preference shares of £1 each which are convertible into fully paid Ordinary shares of The Capita Group Plc at £0.24 per share at any time prior to 31st December 2004.

The minority interest (equity) of £6,000 (2000: £nil) represents 30% of Issues Direct Limited.

The minority interest charge in the profit and loss includes a charge of £48,000 (2000: £48,000) in respect of non-equity interests and a credit of £21,000 (2000: £nil) in respect of equity interests.

18 Reserves

			Profit and loss account		
Group	Share premium £000's	Merger reserve £000's	Reserve before goodwill previously written off £000's	Goodwill previously written off to reserves £000's	Total £000's
1st January 2001	232,813	—	66,250	(70,021)	(3,771)
Shares issued	4,788	11,299	—	—	—
Transfer of goodwill written off	—	(11,299)	—	11,299	11,299
Exchange adjustments	—	—	(59)	—	(59)
Retained profit for the year	—	—	17,334	—	17,334
31st December 2001	**237,601**	**—**	**83,525**	**(58,722)**	**24,803**
Company					
1st January 2001	232,813	22,884	47,911	—	47,911
Shares issued	4,788	11,299	—	—	—
Retained profit for the year	—	—	2,695	—	2,695
31st December 2001	**237,601**	**34,183**	**50,606**	**—**	**50,606**

The companies acquired have been dealt with as acquisitions and where applicable advantage has been taken of the merger relief rules.

The cumulative amount of goodwill previously written off directly to reserves at 31st December 2001, net of goodwill relating to undertakings disposed of, is £92,884,000 (2000: £92,884,000).

19 Commitments and contingent liabilities

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

	2001		2000	
	Property £000's	**Other £000's**	Property £000's	Other £000's
Operating leases which expire:				
Within one year	**1,571**	**3,774**	627	2,074
In second to fifth year inclusive	**6,318**	**4,901**	3,356	5,127
Over five years from the balance sheet date	**9,626**	**231**	7,263	661
	17,515	**8,906**	11,246	7,862

(b) The Company has guaranteed overdraft and loan facilities of Group undertakings amounting to £95,000,000 (2000: £45,000,000). Equita Limited has given, in the normal course of its business, performance bonds of £2,600,000 (2000: £500,000). The following companies have provided indemnities in the normal course of business: Capita Property Consultancy Limited £343,000 (2000: £100,000), Capita Business Services Limited £9,325,000 (2000: £5,398,000), Capita Eastgate Insurance Services Limited £550,000 (2000: £350,000), Capita DBS Limited £4,000,000 (2000: £nil) and The Capita Group Plc £50,430,000 (2000: £41,684,000).

(c) At 31st December 2001 capital commitments contracted for but not provided in the accounts amounted to £9,243,000 (2000: £15,455,000).

(d) Further consideration may be due up to a maximum of £1,500,000, of which £750,000 is already provided, dependent on the turnover generated in 2002 from the learning and development business of the Industrial Society.

20 Borrowings and finance leases

	Group		Company	
	2001 £000's	2000 £000's	**2001 £000's**	2000 £000's
Bank loans and overdrafts payable on demand	**9,447**	3,170	**70,753**	42,331
Bank loans payable in more than one year	**50,000**	—	**50,000**	—
Loan notes	**50,183**	47,636	**50,183**	47,636
Obligations under finance leases	**1,553**	1,533	**—**	—
	111,183	52,339	**170,936**	89,967
Repayments fall due as follows:				
Within one year:				
Bank loans and overdrafts	**9,447**	3,170	**70,753**	42,331
Obligations under finance leases	**772**	763	**—**	—
Other borrowings	**27,713**	44,636	**27,713**	44,636
	37,932	48,569	**98,466**	86,967
After more than one year:				
In more than one year but not more than two years	**22,150**	1,740	**21,470**	1,000
In more than two years but not more than five years	**51,101**	2,030	**51,000**	2,000
	73,251	3,770	**72,470**	3,000
Total borrowings and finance leases	**111,183**	52,339	**170,936**	89,967

Loan notes were issued pursuant to the acquisition of subsidiary undertakings. Movements in the year are shown in note 21.

Notes to the Accounts

for the year ended 31st December 2001

21 Derivatives and other financial instruments

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below. These policies have remained unchanged.

The disclosure below excludes short term debtors and creditors.

The Group's principal financial instruments comprise bank loans, loan notes, finance leases, hire purchase contracts and cash. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

(a) Interest rate risk

The Group borrows at both fixed and floating rates of interest. The Group does not hedge against the impact of short term or long term interest rate movements as they are not considered to significantly impact Group earnings.

The interest rate profile of the financial liabilities of the Group as at the year end was as follows:

Financial liabilities	Floating rate £000's	Fixed rate £000's	Financial liabilities on which no interest is payable £000's	Total £000's	Fixed rate weighted average interest rate %	Weighted average period of which rate is fixed Years	Weighted average period to maturity of non interest bearing liabilities Years
31st December 2001							
Sterling	**59,447**	**52,336**	**5,311**	**117,094**	**5**	**2**	**2**
31st December 2000							
Sterling	3,170	49,769	172	53,111	5	1	2

The financial liabilities of the Group comprised:	2001 £000's	2000 £000's
Bank loans and overdrafts repayable on demand	**9,447**	3,170
Bank loans payable in more than one year	**50,000**	—
Loan notes	**50,183**	47,636
Obligations under finance leases	**1,553**	1,533
Other creditors falling due after more than one year	**5,311**	172
Preference shares of a subsidiary undertaking	**600**	600
	117,094	53,111

Bank overdrafts bear interest at Barclays Bank standard rates based on the bank base rate.

21 Derivatives and other financial instruments (continued)

The financial liabilities of the Group include loan notes issued during the year of £14,597,000 (2000: £50,378,000). During the year £12,050,000 of these loan notes were repaid (2000: £18,870,000). The following loan notes are repayable on demand, but no later than dates of maturity which are, £366,000 on 30th June 2004, £1,250,000 on 31st December 2002, £8,500,000 on 18th December 2002, £1,265,000 on 1st February 2003, £4,106,000 on 27th February 2006, £3,139,000 on 31st December 2006 and £6,087,000 on 31st May 2007. The remaining loan notes of value £25,470,000 are repayable in more than one year, £5,000,000 of which is payable in five instalments, on demand, of £1,000,000. The final instalment being due on 5th May 2004. The balance of £20,470,000 is repayable on receipt of one year's advance notification of the intent to redeem from either the loan note holder or the Company. Consequently £22,470,000 of the loan notes are deemed to be due in more than one year. The interest rates attributable to the loan notes are fixed for each new issue. These rates range from 4.45% to 5.25%.

The £50,000,000 bank loan payable in more than one year is at a variable rate with a repayment date of 12th November 2005. Interest is charged at National Westminster Bank Plc standard rates based on the base rate.

Financial assets	**Floating rate £000's**	**Financial assets on which no interest is receivable £000's**	**Total £000's**	**Weighted average period to maturity of non interest bearing assets Years**
31st December 2001				
Sterling	**4,680**	**1,256**	**5,936**	**2**
31st December 2000				
Sterling	—	4,130	4,130	2

Included within the £5,936,000 is £5,822,000 (2000: £3,456,000) of current asset investments which have an indefinite life.

The financial assets of the Group comprised:	**2001 £000's**	2000 £000's
Other debtors	**114**	674
Current asset investments	**5,822**	3,456
	5,936	4,130

The cash investment fund bears interest at floating rates based on the bank base rate.

(b) Foreign currency risk

During the year the Group had investments in subsidiary undertakings in the Republic of Ireland, Poland, Malaysia and the Czech Republic, which are affected by movements in the local currency/sterling exchange rates. However, as this does not significantly affect the Group balance sheet the Group does not currently hedge this currency exposure and any exchange differences are taken directly to reserves and are recognised in the statement of total recognised gains and losses. At 31st December 2001 those companies based in Poland, Malaysia and the Czech Republic were no longer trading. The Group does not have any significant currency exposures on monetary assets and liabilities.

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans, loan notes, finance leases and hire purchase contracts.

Notes to the Accounts

for the year ended 31st December 2001

21 Derivatives and other financial instruments (continued)

(d) Borrowing facilities

At 31st December 2001 the Group had total borrowing facilities of £95,000,000 (2000: £45,000,000), of which £50,000,000 was committed (2000: £nil) and drawn down in full at the year end (2000: £nil). Subsequent to the year end the Group obtained further committed facilities of £25,000,000.

(e) Fair value of financial instruments

	2001		2000	
	Book value £000's	**Fair value £000's**	Book value £000's	Fair value £000's
Bank loans and overdrafts	**(9,447)**	**(9,447)**	(3,170)	(3,170)
Other debtors	**114**	**114**	674	627
Current asset investments	**5,822**	**5,822**	3,456	3,456
Obligations under finance leases falling due within one year	**(772)**	**(772)**	(763)	(763)
Loan notes repayable on demand	**(27,713)**	**(27,713)**	(44,636)	(44,636)
Other borrowings and finance leases falling due after more than one year	**(73,251)**	**(69,588)**	(3,770)	(3,720)
Other creditors falling due after more than one year	**(5,311)**	**(5,205)**	(172)	(143)
Preference shares of subsidiary undertaking	**(600)**	**(12,363)**	(600)	(12,615)
	(111,158)	**(119,152)**	(48,981)	(60,964)

The preference shares are convertible into 2,523,000 Ordinary shares of The Capita Group Plc, and the market value of these shares at 31st December 2001 was £12,363,000 (2000: £12,615,000). The fair values of all other items have been calculated by discounting the expected future cash flows at prevailing interest rates.

22 Reconciliation of operating profit to net cash inflow from operating activities

	2001 £000's	2000 £000's
Operating profit before interest	**57,969**	44,667
Depreciation charge	**15,440**	9,379
Amortisation of goodwill	**19,106**	9,815
Provision against trade investments	**12**	73
Employee Benefit Trust amortisation	**375**	1,001
(Profit)/loss on sale of fixed assets	**(550)**	75
Profit on sale of current asset investment	**(169)**	—
Utilisation of provisions	**(1,073)**	(463)
Increase in debtors	**(15,666)**	(11)
Increase in creditors	**14,575**	4,374
	90,019	68,910

23 Reconciliation of net cash flow to movement in net funds/(debt)

	Net debt at 1st January 2001 £000's	Acquisitions in 2001 (exc. cash) £000's	Cash flow movements £000's	Non-cash flow movements £000's	Net debt at 31st December 2001 £000's
Overdrafts	**(3,170)**	**—**	**(6,277)**	**—**	**(9,447)**
Loan notes	**(47,636)**	**(14,597)**	**12,050**	**—**	**(50,183)**
Long term loans	**—**	**—**	**(50,000)**	**—**	**(50,000)**
Finance leases	**(1,533)**	**(685)**	**1,282**	**(617)**	**(1,553)**
Total	**(52,339)**	**(15,282)**	**(42,945)**	**(617)**	**(111,183)**

	Net debt at 1st January 2000 £000's	Acquisitions in 2000 (exc. cash) £000's	Cash flow movements £000's	Non-cash flow movements £000's	Net debt at 31st December 2000 £000's
Cash at bank and in hand	1,710	—	(1,710)	—	—
Overdrafts	—	—	(3,170)	—	(3,170)
	1,710	—	(4,880)	—	(3,170)
Factored debts	(1,186)	—	1,186	—	—
Loan notes	(16,128)	(50,378)	18,870	—	(47,636)
Long term loans	—	(26,127)	26,127	—	—
Finance leases	(811)	(1,183)	828	(367)	(1,533)
Total	(16,415)	(77,688)	42,131	(367)	(52,339)

24 Acquisitions

The Group made a number of acquisitions in the year which are shown in aggregate.

	Book value £000's	Accounting policy adjustments £000's	Fair value adjustments £000's	Fair value to the Group £000's
Tangible fixed assets	5,959	(944)	(125)	4,890
Current asset investments	6,606	—	—	6,606
Debtors	18,653	—	—	18,653
Cash	16,537	—	—	16,537
Overdraft	(3,272)	—	—	(3,272)
Creditors	(38,210)	—	(2,550)	(40,760)
Provisions	—	(2,634)	(13,300)	(15,934)
Taxation	(1,602)	—	—	(1,602)
Minority interest share of assets on initial acquisition of subsidiary	(27)	—	—	(27)
	4,644	(3,578)	(15,975)	(14,909)
Goodwill				126,852
Consideration				111,943

Notes to the Accounts

for the year ended 31st December 2001

24 Acquisitions (continued)

	£000's
Discharged by:	
Shares allotted	8,041
Transfer of investment in associate	75
Transfer from current asset investments	2,500
Loan notes	14,597
Purchase consideration accrued	8,404
Cash	78,326
	111,943

In addition to the consideration above, at 31st December 2001, the Group has made a provision of £5,426,000 (2000: £4,440,000) to allot shares in respect of deferred consideration payments due on previous acquisitions which has been treated as an increase to goodwill. At 31st December 2000, shares to be issued amounted to £4,440,000. The value of the actual shares allotted during 2001 was £3,311,000, the difference of £1,129,000 has been treated as a reduction to goodwill. The net impact of the above is to increase goodwill by £4,297,000, giving total goodwill of £131,149,000.

Recall Recruitment Limited

On 27th February 2001 the Group acquired Recall Recruitment Limited for a consideration of £9,911,000, satisfied by cash of £2,404,000, the issue of £4,107,000 loan notes and deferred consideration, payable in cash, of £3,400,000. The Group acquired fixed assets of £195,000, debtors of £925,000, creditors, including taxation, of £678,000 and bank overdrafts of £1,007,000. The unaudited management accounts for the period 1st January 2001 to the effective date of acquisition show a loss on ordinary activities after taxation of £1,430,000. The audited financial statements for the period ended 31st December 2000 show a profit on ordinary activities after taxation of £590,000.

The subsidiary acquired during the year resulted in net operating activities inflows of £1,101,000 for the Group, outflows of £214,000 in respect of taxation and outflows of £58,000 in respect of capital expenditure and financial investment.

Capita Trust Company Limited (formerly Royal & Sun Alliance Trust Company Limited)

On 17th May 2001 the Group acquired Capita Trust Company Limited for a cash consideration of £24,800,000. The Group acquired fixed assets of £656,000, current asset investments of £6,513,000, debtors of £675,000, creditors, including taxation, of £404,000 and cash of £10,767,000. The unaudited management accounts for the period 1st January 2001 to the effective date of acquisition show a loss on ordinary activities after taxation of £51,000. The audited financial statements for the year ended 31st December 2000 show a profit on ordinary activities after taxation of £491,000.

The subsidiary acquired during the year resulted in net operating activities inflows of £1,282,000 for the Group, inflows of £407,000 in respect of returns on investments and servicing of finance, and inflows of £1,621,000 in respect of capital expenditure and financial investment.

MyShares Limited

On 17th May 2001 the Group acquired MyShares Limited for a cash consideration of £2,026,000. MyShares Limited was treated as a current asset investment in the prior year. On it becoming a 100% owned subsidiary there was a transfer of £2,500,000 from current asset investments. The Group acquired fixed assets of £10,000, debtors of £303,000, creditors of £3,445,000 and cash of £1,331,000. The unaudited management accounts for the period 1st January 2001 to the effective date of acquisition show a loss on ordinary activities after taxation of £2,972,000. The audited financial statements for the period ended 31st December 2000 show a loss on ordinary activities after taxation of £2,777,000.

24 Acquisitions (continued)

The subsidiary acquired during the year resulted in net operating activities outflows of £1,331,000 for the Group.

Capita McLarens Limited (formerly McLaren Dick & Company Limited)

On 15th June 2001 the Group acquired Capita McLarens Limited for a consideration of £33,190,000, satisfied by cash of £15,058,000, the issue of £6,087,000 loan notes and deferred consideration of £5,004,000 and the issue of shares. The Group acquired fixed assets of £4,897,000 (fair value £3,828,000), debtors of £13,885,000, creditors, including taxation, of £28,428,000 (fair value £44,362,000) and bank overdrafts of £2,260,000. The unaudited management accounts for the period 1st May 2000 to the effective date of acquisition show a loss on ordinary activities after taxation of £4,767,000. The audited financial statements for the year ended 30th April 2000 show a profit on ordinary activities after taxation of £1,849,000, which includes the results of the Company's international business that the Group did not acquire.

The subsidiary acquired during the year resulted in net operating activities inflows of £4,238,000 for the Group, outflows of £103,000 in respect of returns on investments and servicing of finance, outflows of £853,000 in respect of taxation and inflows of £74,000 in respect of capital expenditure and financial investment.

Learning and Development Business of the Industrial Society

On 17th December 2001 the Group acquired the learning and development business of the Industrial Society for a cash consideration of £22,250,000. The Group acquired debtors of £622,000, creditors of £2,409,000 and cash of £512,000. The unaudited management accounts for the period 1st July 2001 to the effective date of acquisition show a profit on ordinary activities after taxation of £825,000. The business reported unaudited proforma profit of £3,000,000 in the year ended 30th June 2001.

The business acquired during the year was completely integrated within the continuing businesses of the Group and consequently it is not possible to determine the post acquisition results of the business.

The Group has made other acquisitions, including the highways design business of Cumbria County Council, Harford Registrars and Moorgate Registrars Plc, in the year for an aggregate consideration of £17,266,000. These acquisitions were satisfied by cash of £11,788,000, the issue of £4,403,000 loan notes and the issue of shares. At the prior year end there was an investment in associates. During the year the Company made a further investment, such that the associate undertaking became a subsidiary undertaking, and thus there has been a transfer of £75,000 from investments in associates. The Group acquired fixed assets of £201,000, current asset investments of £93,000, debtors of £2,243,000, creditors, including taxation, of £4,448,000, overdrafts of £5,000 and cash of £3,927,000.

Since acquisition, the acquired businesses have been completely integrated within the continuing businesses of the Group and consequently it is not possible to determine the post acquisition results of the businesses.

The fair value adjustments reflect adjustments necessary to comply with the Group's accounting policies in respect of provisions for vacant properties, the estimated useful lives of fixed assets, the Group's estimate of the fair value of the fixed assets acquired, estimates of liabilities in respect of accruals not recognised in previously acquired companies and estimates of liabilities in respect of pensions.

25 Related party transactions

There were no related party transactions in the year. In the previous year Eastgate Group Limited became a subsidiary, but in the period it was an associate, £585,000 of interest on £6,500,000 6% subordinated loan stock issued to The Capita Group Plc was paid. At 31st December 2000 the amount owed by associated undertakings was £nil including accrued interest of £nil.

Notes to the Accounts
for the year ended 31st December 2001

26 Pension commitments

The Group operates both defined benefit and defined contribution pension schemes. These pensions schemes are funded and the payment of contributions are made to separately administered trust funds. The assets of the pension schemes are held separately from the Group.

The pension charge for the defined contribution pension schemes for the year is £5,865,000 (2000: £2,132,000). The increase in the current year is attributable to additional schemes from acquisitions in the current and prior year. The unpaid contributions outstanding at the year end are £600,000 (2000: £430,000).

There are three defined benefit schemes: The Capita Pension and Life Assurance Scheme ('Capita scheme'); The McLaren Dick & Company Limited Pension and Assurance Scheme ('McLarens scheme'); and The Eastgate Assistance Retirement Benefit Scheme ('Eastgate scheme'). The pension costs for the defined benefit schemes are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the protected unit credit method. The independent qualified scheme actuaries carried out the latest full valuation of the Capita scheme on 5th April 1999, the McLarens scheme on 1st May 1999, and the Eastgate scheme on 1st January 2000 and the valuations were updated to 31st December 2001. 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. Included within prepayments are pre-paid pension costs of £2,927,000 (2000: £2,927,000).

The pension charge for the defined benefit schemes for the year is £6,010,000 (2000: £3,419,000). The contributions made to the defined benefit pension scheme during the year amounted to £5,667,000 (2000: £3,213,000). The unpaid contributions outstanding at the year end was £749,000 (2000: £406,000). The current agreed employer contribution rates equate to an average of 9.9% (Capita scheme), 24.1% (McLarens scheme) and 14.5% (Eastgate scheme) of pensionable salaries.

The major assumptions for the last full valuations performed in 1999 and 2000 and used for the calculation of the profit and loss charge were as follows:

	Capita scheme %	McLarens scheme %	Eastgate scheme %
Rate of return on investment	7.00	6.50	7.50
Rate of price inflation	3.00	2.90	3.25
Rate of salary increase	4.50	4.40	5.00
Rate of increase for pensions in payment	2.75	2.90	3.50

Based on the 1999 and 2000 actuarial valuations, the value of the schemes was sufficient to cover approximately 98% (Capita scheme), 99% (McLarens scheme), 100% (Eastgate scheme) of the benefits that had accrued to members after allowing for expected future increases in wages and salaries. The results of the actuarial valuations also showed that the schemes were 110% (Capita scheme), 105% (McLarens scheme) and 117% (Eastgate scheme) funded at the valuation date based on the methods and assumptions for the purposes of the minimum funding requirement (MFR). The market values of the schemes' assets at 31st December 2001 are set out in the FRS17 disclosures below.

Upon acquisition of Capita McLarens Limited (formerly McLaren Dick & Company Limited) there was a deficit of £13,300,000 in respect of the McLarens scheme which has been recognised as a fair value adjustment in note 24.

26 Pension commitments (continued)

The additional disclosures required by FRS17 are set out below:

The major assumptions as at 31st December 2001 were as follows:

	Capita scheme %	McLarens scheme %	Eastgate scheme %
Rate of price inflation	2.75	2.75	2.75
Rate of salary increase	4.25	4.25	4.25
Rate of increase for pensions in payment	2.65	2.65	3.32
Rate used to discount scheme liabilities	5.80	5.80	5.80

	Expected long term rate of return %	Market value £000's	Expected long term rate of return %	Market value £000's	Expected long term rate of return %	Market value £000's
Equities	7.5	55,575	7.5	55,802	8.1	3,211
Bonds	5.0	890	5.0	29,749	6.4	958
Property	—	—	7.5	1,448	8.1	383
Other (cash)	4.0	1,834	4.0	910	5.4	1,742
Total		58,299		87,909		6,294
Present value of scheme liabilities		(61,928)		(107,624)		(8,912)
Scheme deficit		(3,629)		(19,715)		(2,618)
Deferred tax		1,089		5,915		786
Net pension liability		(2,540)		(13,800)		(1,832)

Principal Group Investments

Capita Business Services Including: Educational Support Services MyShares Recall Recruitment	Providing an integrated range of white-collar professional services across the UK including professional support services, customer and administrative services, consultancy, IT and software services and human resource (HR) provision.
Capita Eastgate Group	Market leader in the outsourcing of insurance administration and provider of professional support solutions.
Equita	Professional debt collection and bailiff services.
Capita Property Consultancy	Providing a comprehensive range of consultancy services to the construction industry.
MPM Capita	Provision of project management services within the construction industry.
Roscoe Capita	A leading civil, structural and geo-environmental engineering consultancy.
Capita IRG	Providers of share registration and employee share scheme administration services.
Capita Trust Company (formerly Royal and Sun Alliance Trust Company Limited)	Corporate trustees and providers of trust and administration services.
Capita McLarens (formerly McLaren Dick & Company Limited)	One of the UK's leading loss adjusters providing claims management services for both commercial and domestic insurance.
Sector Treasury Services	Provision of treasury and financial management advisory services primarily to public sector organisations.

Report of the Independent Auditors

To the shareholders of The Capita Group Plc
We have audited the Group's accounts for the year ended 31st December 2001 which comprise the Group Profit and Loss Account, Balance Sheets, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 26. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors
The Directors' responsibilities for preparing the Annual Report and accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Chairman's Statement, Directors' Report, Corporate Governance Statement, and Report on Directors' Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom 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 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

20th February 2002

Five Year Summary
for the years ended 31st December

Group balance sheet	2001 £000's	2000 £000's	1999 (restated) £000's	1998 (restated) £000's	1997* £000's
Fixed assets	**464,170**	328,570	145,701	53,799	10,827
Current assets	**151,596**	115,414	79,664	72,126	54,537
	615,766	443,984	225,365	125,925	65,364
Creditors	**(315,563)**	(193,888)	(107,636)	(87,000)	(58,507)
Provisions for liabilities and charges	**(18,537)**	(2,949)	(987)	(412)	(749)
	281,666	247,147	116,742	38,513	6,108
Capital and reserves	**281,060**	246,547	116,067	37,838	5,119
Minority interests	**606**	600	675	675	989
	281,666	247,147	116,742	38,513	6,108
Group profit and loss account					
Turnover	**691,203**	453,348	327,199	237,802	172,904
Profit before interest and goodwill amortisation	**77,075**	53,124	36,429	27,020	17,882
Net interest (payable)/receivable	**(4,943)**	(1,906)	(114)	(220)	430
Profit before taxation and goodwill amortisation	**72,132**	51,218	36,315	26,800	18,312
Goodwill amortisation	**(19,106)**	(11,244)	(4,167)	—	—
Taxation	**(20,797)**	(14,868)	(11,273)	(8,708)	(5,860)
Minority interests	**(27)**	(48)	(54)	(804)	(286)
Dividends	**(14,868)**	(10,763)	(7,921)	(5,511)	(4,122)
Retained profit	**17,334**	14,295	12,900	11,777	8,044
Earnings per share (excluding goodwill amortisation)	**7.80p**	5.60p	4.07p	2.97p	2.17p
Earnings per share (including goodwill amortisation)	**4.90p**	3.87p	3.39p	2.97p	2.17p
Dividend per ordinary share	**2.25p**	1.65p	1.27p	0.93p	0.70p

*The prior year 1997 has not been restated following the adoption of FRS12.