COMPANY NUMBER
2081330

The Capita Group Plc Annual Report and Accounts 2007

Transforming **outsourcing**

Capita at a glance →

=results

We transform service delivery, increasing quality and driving down costs, helping our clients meet their customers' needs and stay at the forefront of their markets.

Working with clients in both the public and private sectors in the UK and Ireland, our core role is to provide efficient back office administration and frontline customer services. This leaves them to focus on their core business drivers and strategies.

Helping our clients succeed enables us to grow consistently and profitably, creating a sustainable business that delivers value to all our stakeholders.

Thanks to all of our employees who took part in the photography for this report

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Our goal is to deliver value to all our stakeholders

Our straightforward goal is to continue to develop Capita as a long term, sustainable business that can deliver value to all our stakeholders:

- → **Delivering operational excellence and added value for all clients**
- → **Achieving a good return for shareholders**
- → **Creating a supportive, rewarding and inspiring environment for employees**
- → **Developing mutually beneficial relationships with suppliers**
- → **Making a positive impact on the communities in which we work.**

To meet our goal we focus on 5 core elements

1. **Generating profitable growth** both organically and through acquisition
2. **Controlling and measuring growth** through strong leadership and clear business practices
3. **Managing our business responsibly** to meet the needs of all our stakeholders
4. **Targeting growth markets** for BPO and professional support services in the UK and Ireland
5. **Maintaining performance across our divisions** by consistently delivering service excellence and sharing Group resources and scale benefits

Our principal Key Performance Indicators (KPIs)

KPI	Year end 2007	Year end 2006
Operating margins Maintain and strengthen margins	**13 1%**	12 9%
Free cash flow Maintain strong free cash flow	**£184m**	£154m
Return on capital employed (ROCE) Achieve ROCE which exceeds our cost of capital	**19 6%**	18 5%
Economic profit Achieve steadily increasing economic profit	**£110m**	£89m
Gearing – interest cover Maintain efficient capital structure, with relatively low gearing	**8x**	9x
Capital expenditure Keep at or below 4% of revenue	**3 5%**	3 6%
Retaining people Senior management retention	**89%**	91%
Overall employee retention (industry average 81 9%[1])	**82%**	82%
Carbon footprint – new benchmark Carbon footprint across our 18 largest sites	**58,523 tonnes**	not available[2]

[1] CIPD 2007

[2] Last measured in 2004 across a different set of sites

Our growth opportunity

We operate in and lead the market commonly known as business process outsourcing (BPO) or professional support services, the long term contracting out of non-core business processes to an outside provider to help lower the cost of delivery and improve service quality.

We focus on the UK and Ireland where there are significant opportunities for growth.

*Ovum 2007

Our services and markets

We deliver these **services**

- → Business process outsourcing (BPO)
- → Customer services
- → Administration and support
- → Human resources
- → Information and communications technology (ICT)
- → Property consultancy
- → Finance and treasury
- → Consultancy and change management

For further information visit **www capita co uk**

to these **markets**

Private

- → Life and pensions
- → Insurance
- → Financial services
- → Other corporate

Public

- → Central government
- → Local government
- → Education
- → Transport
- → Health

Directors' report

The Directors present the Annual Report for the year ended 31 December 2007 which includes the business review, governance and audited Group accounts for the year Pages 01 to 62, inclusive, of this Annual Report comprise a Report of the Directors that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law In particular, Directors would be liable to the Company (but not to any third party) if the Directors' report contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable

Business Review

Governance

Accounts

Performance for the year

Capita performed strongly in 2007 with a record level of new major contracts in the year. We enter 2008 with confidence. There is strong demand for outsourcing and our businesses across the Group are experiencing good trading conditions.

Our performance in 2007

Capita performed strongly in 2007. Organic growth was excellent with businesses across the Group performing well and with a record level of new major contracts secured in the year.

In the year ended 31 December 2007, turnover increased by 19% to £2,073m (2006: £1,739m). Operating profit before amortisation rose by 21% to £271.3m (2006: £225.1m) and profit before taxation and amortisation increased by 19% to £238.4m (2006: £200.1m). Earnings per share before amortisation grew by 22% to 28.1p (2006: 23.1p).

Operating cash flow rose by 20% to £334m (2006: £279m). We have increased our total dividend for the year by 33% to 12.0p (2006: 9.0p). Additionally, we paid a special dividend of 25p per share in October 2007, returning £155m to shareholders. We have also returned a further £44m to shareholders through purchasing our own shares. In total, including the proposed final dividend, we will be returning £272m (2006: £279m) to shareholders in respect of the 2007 financial year.

Building value for shareholders

To ensure we are building value for shareholders, we focus on a number of key measures alongside profitability: operating margins, cash flow, capital expenditure, return on capital employed, gearing and economic profit. We also focus on maintaining a conservative but efficient capital structure. Collectively they form an integral part of building value for our shareholders on a consistent basis over the long term. We have set out our aims and performance regarding these disciplines on pages 14–20.

Generating profitable growth

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

Major contracts Our sales performance in 2007 was excellent. We secured eight major contracts with a total value of £1.89bn (2006: £1.37bn) and we maintained our one in two win rate. See page 08 for further details.

In the first eight weeks of 2008, we have been awarded major contracts with an aggregate value of £314m.

This included two general insurance contracts with Marsh Ltd and British Islamic Insurance Holdings, an additional contract with eircom and an extension to the Teachers' Pension Scheme contract.

Bid pipeline In the three months to the end of February 2008, awards have been made regarding £1.5bn of contract opportunities in our bid pipeline of which Capita has won 68% by value. As a consequence, our bid pipeline in February 2008 stands at £2.5bn (Feb 2007: £2.6bn) but is already being replenished at a healthy rate, reflecting the quality of business opportunities across our markets.

Behind this is an active prospect list of opportunities which are yet to reach a shortlist stage.

Contract renewals: There are now no material contracts (defined as having annual revenue in excess of 1% of 2007 turnover) due for renewal in 2008 and 2009 as described on page 11.

Stimulating growth through acquisition A key element of our growth is the acquisition of small to medium sized companies which extend our presence in existing marketplaces or provide a foothold in a new market. In 2007 we completed 12 acquisitions and investments. These are described on page 12.

Increasing scale and capabilities of our offshore operations Our offshore operation in India has played a significant role in helping to secure major new business, including our contracts with Resolution, Prudential and Marsh. By the end of 2008, we expect to grow the offshore business to 3,000 staff, a year ahead of plan, and will have achieved a major step forward in scale which can be leveraged to benefit the Group and our clients. We have described our offshore operations in more detail on pages 26–27 and 45.

Valuing our people

Our success is driven by our people. They play a vital role in helping us meet client expectations and supporting our growth. The Board would like to thank everyone across the Group for the role they play in Capita's success. We applaud and thank you all warmly for your enthusiasm, hard work and commitment to service excellence.

Group Board changes

With effect from 1 March 2008, Martin Bolland joins Capita as Non-Executive Director. Martin is a Chartered Accountant and spent the last 10 years working with Alchemy Partners LLP, a private equity house, of which he was a founding partner. Martin's appointment represents a significant addition to our Board and we look forward to his contribution to the team.

At the end of September 2008, Peter Cawdron will be standing down as Non-Executive Director, after serving 11 years on the Group Board. Peter has been a valuable member of the Board. We will miss his input and wish him every success for the future.

Future prospects

We enter 2008 with confidence. There is strong demand for outsourcing and our businesses across the Group are experiencing good trading conditions.

Our successes in 2007 and progress in the first few weeks of this year underpin our continued growth in 2008. With healthy sales prospects and consistently good operational performance, we are positioned well for further strong performance thereafter.

Our business goal and strategy

Our goal is to deliver value to all our stakeholders

Our straightforward goal is to continue developing Capita as a long term, sustainable business that can deliver value to all its stakeholders:

- → Delivering operational excellence and added value for all clients
- → Achieving a good return for shareholders
- → Creating a supportive, rewarding and inspiring environment for employees
- → Developing mutually beneficial relationships with suppliers
- → Making a positive impact on the communities in which we work.

Our strategy is clear, straightforward and pragmatic

To meet the needs of all our stakeholders now and into the future, we have created a clear, straightforward business strategy.

Our business strategy focuses on five core elements:

1. Generating profitable growth

both organically and through acquisition

→ Securing long term, recurring revenues from new and existing clients

→ Acquiring small to medium sized businesses that expand our existing capability and take us into new areas

2. Controlling and measuring growth

through strong leadership and clear business practices

→ Maintaining a robust management and operating structure led by a stable, inspiring team

→ Working to clear KPIs, with strong financial controls and effective governance

→ Employing careful risk management

3. Managing our business responsibly

to meet the needs of all our stakeholders

→ **Shareholders:** delivering shareholder value

→ **Clients:** building scale and capacity to support and benefit our clients

→ **People:** actively managing our resources to meet current and future business needs

→ **Suppliers:** securing and managing successful supplier relationships

→ **Communities:** undertaking socially responsible business practices

4. Targeting growth markets

for BPO and professional support services in the UK and Ireland

→ Seeking the best opportunities across both the public and private sectors

→ Focusing on our nine chosen market sectors

5. Maintaining performance across our divisions

by consistently delivering service excellence and sharing Group resources and scale benefits

→ Aligning each business within our divisions with the Group's overall objectives and strategy

→ Investing in service and product development, appropriate sales and marketing activities

→ Maintaining a simple, pragmatic divisional structure to ensure the best resources are deployed Group-wide

1. Generating profitable growth

We generate profitable growth by:

A. Driving organic growth: we concentrate on organic growth, winning business that provides long term recurring revenues from new and existing customers in the UK and Ireland.

B. Stimulating growth through acquisitions: we supplement organic growth by acquiring businesses that broaden our skills base, consolidate our market position or take us into new market segments.

As a result, we have grown consistently since we started – initially delivering support services to government, and now operating across both the public and private sectors.

Transforming criminal records for the Home Office

The Criminal Records Bureau (CRB) gives employers information to 'facilitate safer recruitment and protect the vulnerable'. In August 2002, it replaced local police checks across the country with a national service, collating data from a variety of sources. We're responsible for designing, building and maintaining its fully integrated IT and administration infrastructure

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New IT infrastructure

Robust business processes

Priorities for 2008. Generating profitable growth

Organic growth

→ Identify beneficial new business opportunities across the Group

→ Address opportunities selectively

→ Maintain competitive differentiation

→ Maintain bid process disciplines to secure appropriate pricing and contract terms

→ Track success and future opportunities

→ Retain and expand contracts through client satisfaction.

Acquisitions

→ Select acquisitions that complement or grow our business offering and market reach

→ Maintain rigorous criteria and disciplines for selecting targets and agreeing pricing

→ Maintain and continue to enhance integration processes.

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Strong partnership

99.5%

delivery vs 93% target

The IT infrastructure we've created can process over 70,000 applications a week and issue over 120,000 documents a month. The CRB now issues 99.5% of standard disclosures within 10 days, well ahead of its 93% public service standard

In 2005 we implemented the Interim Police Cross Reference service This pulls together over 54m records from 43 police forces, central government files and the Police National Computer, offering recruiters significantly greater security Since then we've installed the CRB's new e-platform and launched its first e-service, Online Tracking – now logging over 600,000 enquiries a month

Some 85% of customers now find CRB information useful in making recruitment decisions, and the bureau has shown its satisfaction by giving us a key role in the service's future strategy

1A. Driving profitable organic growth

Our organic growth is driven in two ways

The majority comes from securing high quality, recurring revenues from long term contracts that deliver multiple, integrated support services The length of these contracts has consistently increased and now average nine years

We also focus on single service business that rolls over annually, has a high repeat rate or is secured under medium to long term contracts of two to seven years

The combination of long term contracts and highly recurring business provides strong visibility of future revenues

Identifying and securing beneficial new business opportunities across the Group

We actively identify opportunities

In the UK, public sector contracts are subject to defined procurement processes EU policy requires 'fair and open competition', and opportunities are formally advertised or notified

In the private sector we actively seek out opportunities to generate real business value for organisations We generally identify these through business intelligence and relationships, and the procurement process is determined by each individual customer

Our approach to securing business varies according to the size and complexity of the opportunity

Our major sales team pursues complex, long term contracts worth more than £10m over the term of the contract. It can draw on the resources of the whole Group to design integrated solutions tailored to each client

Sales teams in each business unit of each division pursue contracts usually focused on a single service Where these are worth over £10m, the major sales team may provide extra support

Addressing opportunities selectively

Major bids are costly, in time and resources Public sector procurement processes are highly defined and can take up to two years to complete, private sector procurements can vary in length due to changing corporate priorities and differing procurement processes We are highly selective throughout the bid process, only bidding where we believe we can build a sensible working relationship which will deliver benefits to both the client and the Group

Major new contracts and extensions secured in 2007 £1.89bn (2006: £1.37bn)

Client		Value (£m)	Term (years)	Division
Countrywide	New	19	15	Life & Pensions
Swindon Borough Council	Enlarged	243 (Initial value 140)	15	Professional Services
Southampton City Council	New	290	10	Professional Services
OSPT	New	12	10	Financial Services
Birmingham City Council	New	142	10	ICT & Advisory Services
Resolution	New	580	12	Life & Pensions
Co-Operative Insurance (CIS)	Enlarged	270 (Initial value 250)	10	Financial Services
Prudential	New	722	15	Life & Pensions

Critical selection factors include

- → Defined bid process with clear decision criteria, set by clients with whom we can build a strong relationship
- → Fit with our core competencies in service transformation
- → Limited requirement for capital investment, unless there is a real value proposition for the Group
- → Fair risk/reward balance
- → Acceptable contractual obligations

If we feel, at any point during the bid process, that any of these factors has significantly changed and become unacceptable we will withdraw from the process It is essential that we maintain our discipline of securing contracts that will generate value for both our clients and the Group over the term of the contract

Maintaining competitive differentiation

Our clients are highly selective when choosing to engage an outsourcing partner

Outsourcing has evolved rapidly over the past 10 years, from delivering cost driven, single service solutions to creating complex transformational partnerships These partnerships between outsourcer and client are focused on fundamentally changing the client's operational model to increase effectiveness, maintain competitiveness and add real value to both parties

We have built up an unrivalled set of skills and infrastructure and have consistently led and helped shape the market by developing our outsourcing offering We are able not only to respond to clients' unique requirements but also to propose alternative service models that can deliver even greater benefits

When clients outsource large scale functions or services they want to partner with an organisation with a solid financial and performance record Our knowledge base and geographical and technical infrastructure have taken over 20 years to build Our strong balance sheet and cash flow provide reassurance that their service is in safe hands Our proven record of ethical and socially responsible behaviour and strong governance is also a competitive strength Together, these elements clearly differentiate us from our competitors and are significant barriers to entry for new participants in all our markets

We consistently provide

- → Market expertise
- → Financial strength and stability
- → Depth and flexibility of expert resources
- → Extensive and flexible infrastructure
- → A wide range of ICT solutions
- → Onshore, nearshore and offshore delivery options

We have an established track record of delivering

- → Business process efficiencies
- → Consistent service delivery
- → Step changes in service quality improvement
- → Practical application of innovation
- → Economies of scale
- → Cost savings
- → Added value services

Extensive infrastructure, flexible delivery

55 Business centres

Our extensive infrastructure of business centres onshore, nearshore and offshore, allows us to deliver services in the most effective and appropriate way As we increase our economies of scale through our growing infrastructure, we drive down our operating costs, add greater value and flexibility to our clients and increase our competitive advantage

Our business goal and strategy Generating profitable growth

Maintaining bid process disciplines to secure appropriate pricing and contract terms

Our major contracts are long term commitments On average they last nine years, so we need to get our pricing and contract terms right to deliver value to both the Group and our clients

As part of the bid process, we make detailed risk assessments of the contract requirements and our service delivery proposals We build in flexibility and make provision for changing needs where possible Our extensive experience in measuring and accounting for risks is a valuable benefit Where we identify risks we build them into our model and price accordingly We will not accept responsibility for risk that is outside our control

To ensure prudent pricing, we clearly separate responsibilities Sales teams are responsible for client relationships, sales support teams develop pricing and risk models On all major bids, pricing is agreed by the Group Board

Tracking success and future opportunities

One measure of our success in finding and securing significant opportunities is the bid pipeline It contains contracts of £10m or above, where we have been shortlisted to the last four or fewer all bids are capped at £500m to prevent very large individual contracts from distorting the total.

Because our bid success rate is one in three over the long term – and currently one in two – the sales pipeline is a useful indicator of future sales growth We report the pipeline in our full and half year results, providing a snapshot of the size and progress of bids Once a bidding process is completed, the contract moves out of the pipeline – which is replenished as other bids progress to a shortlist stage

The bid pipeline is backed by an active 'prospect list' of opportunities where we are working on bids which are yet to reach a shortlist or final bidding stage In turn, this is backed by a list of 'suspects' and relationships which we are nurturing to generate future bid opportunities

In February 2008, our bid pipeline was £2 5bn (February 2007 £2 6bn)

Growing client relationships

Prudential

We deliver a range of life and pension sales and administration services for Prudential UK's business We've been successfully providing a full range of services for Prudential's international cross border life assurance portfolio of new and existing business since 2003, and in 2006 we signed an outsourcing agreement to deliver end-to-end support for Prudential's UK life and pensions business from their Belfast operation In November 2007 we signed a contract to administer 7 million mature life and pensions policies including group and individual pensions, investment bonds and life and endowment policies The contract is worth approximately £722m over 15 years

Retaining and expanding contracts through client satisfaction

Renewing or expanding existing client relationships is the most efficient way to win business

We concentrate on generating client satisfaction by meeting expectations and delivering value We share thinking and expertise across our operations to ensure that we can provide clients with the highest standards of service As a result we are well placed for clients to extend and expand their relationships with us

We successfully renew the great majority of our contracts when they come up for renewal In our 24 year history we have only failed to renew three of our material contracts (defined as generating more than 1% of the previous year's revenue) These were contracts to deliver the Driving Theory Test, Office Services for the Department of Work and Pensions and the London Congestion Charging Scheme We face no material rebids until 2010

Impending rebids of existing material contracts*

Year	Contract	Value per annum (£m)
2008	None	
2009	None	
2010	DCFS National Strategies	35
2011	None	
2012	TV Licensing	50
2012	CRB	40

*Defined as generating more than 1% of previous year's revenue

To measure the improvement in service to clients and their customers we agree detailed service standards and key performance indicators On our largest contracts, strategic partnership boards help both parties understand each other's needs better As a result, clients find that outsourcing gives them more control over support operations, not less

We aim not just to keep existing relationships, but to grow them Many of our clients have awarded us additional work, once they have experienced the quality service and added value we deliver We not only broaden existing contracts, we are also successful in winning additional contracts to support further areas of our clients' operations

By delivering operational excellence and adding value for our clients and their customers we achieve high client retention rates We also create a pool of positive referees who provide powerful support to new sales initiatives

Transforming civil engineering and transport in Wales

In 2002, we joined forces with Torfaen, Blaenau Gwent, Caerphilly County Borough Council and Monmouthshire County Council to form Capita Gwent Consultancy This unique joint venture provides a range of civil engineering and transportation services previously undertaken by the individual councils

Quality management + **Continuous improvement** =

£400k

profit in one year, against a projected £640k loss

Capita Gwent Consultancy now manages £350m of spending on some 1,400 projects and transportation initiatives including highway projects, PFIs, rail and community regeneration schemes. Working not only for, but alongside authority staff, the joint venture operates a quality management system designed to encourage creativity and innovation and build on past project experience

In just one year, its culture of continuous improvement turned a projected £640,000 loss under the old arrangements into £400,000 profit for reinvestment, while also cutting service costs by 5% We're now on course for a 27% increase in operating profits: good news for service users as 70% of profits are reinvested The partnership continues to grow and aims to double in size by 2012

1B. Stimulating growth through acquisitions

We stimulate growth through acquisition

We focus on acquiring small to medium sized businesses that will support and supplement our organic growth by enhancing our existing offering or market reach

Selecting acquisitions for growth

Acquisitions have consistently played a key role in stimulating our growth We seek acquisitions that will either strengthen and enhance our current position or provide a foothold in a new market segment where we can generate further growth For example, we have entered markets such as education, life and pensions and financial services with an initial acquisition, then swiftly built significant capabilities and generated good returns through a mixture of further acquisitions and contract wins

We now have a strong presence in nine target markets where we continuously look to acquire businesses that will strengthen our market positions, bring complementary skills and services and provide opportunities to create further economies of scale, or expand our current reach

To stimulate growth we seek target acquisitions that

- → Have operations and customers in the UK and/or Ireland
- → Fit with our strategy and core competencies
- → Generate sustainable, quality revenue

In 2007, we spent £114m on 12 acquisitions and investments While continuing to be highly selective, we anticipate a similar volume of small to medium sized transactions in 2008

Acquisitions and investments in 2007

Company	Service	Division	Value (£m)
Spectrum	Software	Professional Services	1 75
Harry Weeks Travel	Travel admin	Integrated Services	21 + 12
CPFR Solutions	Software	Professional Services	3 + 10
Global Fund Administration	Fund admin	Financial Services	2 + 2 5
NHS Partners	Resourcing	HR Solutions & Property Consultancy	1 9 + 0 9
CMGL	Insurance	Insurance & Specialist Services	32
MVRA	Insurance	Insurance & Specialist Services	1 3 + 1 6
TMG*	Legal services	Insurance & Specialist Services	8 + 8 5
PwC CI Trust Business	Trust services	Financial Services	12 75
Higham Dunnett Shaw	Pensions admin	Life & Pensions	15
Aspen	Pensions admin	Life & Pensions	7 4
McKeags*	Legal services	Insurance & Specialist Services	7 + 5

*investment

Total spent on 12 acquisitions and investments in 2007 £114m (2006 £48m, 11 acquisitions and investments)

Applying rigorous criteria when selecting targets and agreeing purchase prices

Potential acquisitions are brought to the Group by external consultants or, increasingly, by people within the Group We are highly selective in the past year we assessed some 100 acquisitions and investments but proceeded with only 12 Due diligence is undertaken at both Group and business level. All acquisitions are assessed and agreed by the Group Board

Capita has a track record of acquiring and successfully integrating small to medium sized businesses that stimulate growth We tend to select acquisition targets that are

- → Privately owned
- → Too small to interest the private equity market
- → Not in an auction – we aim to acquire without competition
- → Attractively priced, with scope to add value for shareholders

This enables us to negotiate sensible purchase prices and terms, and so generate good returns for the Group

Integrating acquisitions successfully

We have substantial experience of integrating acquired businesses and achieving synergies with our existing operations Stringent due diligence, before and after acquisition, enables us to set clear targets for growth, integration benefits and profit A dedicated project team manages the transition, rigorously applying the processes we have developed to bring financial procedures, information and communications technology (ICT), HR, legal, compliance and marketing quickly into line with our standards, using Group systems and resources where appropriate

Acquiring only small to medium sized businesses enables us to integrate the new operations into our existing business infrastructure with little disruption and generally allows us to generate value faster

Adding value through acquisitions

Trustee Services

In 2000, our trust administration business comprised just eight staff acting as trustees for debentures & loan stocks issued by customers Revenues were £1m In May 2001 we bought Royal & Sun Trust Companies, and over the next few years went on to consolidate our position in the market with the acquisitions of Channel House, Stirling Trustees, PwC Channel Island Trustee Operations and Niewenhuis Services for a total acquisition spend of approximately £40m Today we have over 260 staff working out of offices in London, Dublin, Jersey, Guernsey and Amsterdam, with expected revenues of £29m in 2008

2. Controlling and measuring growth

We concentrate on generating steady, controlled growth
To deliver our long term contracts successfully and fuel future growth, we need strong leadership and clear business practices. These are essential to creating a financially stable organisation capable of supporting sustained growth and delivering healthy investor returns.

Our growth is underpinned by the following disciplines and these remain our priorities for 2008:

A. **Maintaining strong structure and control** through robust management and operating structure.

B. **Focusing on clear financial key performance indicators (KPIs)** with strong financial controls and effective governance.

C. **Maintaining careful risk management** consistently throughout the Group.

Transforming **Birmingham City Council**

Service Birmingham is our joint venture with Europe's largest local authority, Birmingham City Council
By providing world-class information and communications technology (ICT) systems Service Birmingham is transforming the way the Council operates, improving services, cutting costs and increasing job satisfaction.

World-class technology

£2m investment in new servers

Financial KPIs for 2007

KPI	Aim	Progress 2007	2006
Operating margins	Maintain and strengthen margins	**13.1%**	12 9%
Free cash flow	Maintain strong free cash flow	**£184m**	£154m
Return on capital employed (ROCE)	Achieve steadily increasing ROCE which exceeds our cost of capital	**19.6%**	18 5%
Economic profit	Achieve steadily increasing economic profit	**£110m**	£89m
Gearing – interest cover	Maintain a conservative and efficient capital structure, with relatively low gearing	**8x**	9x
Capital expenditure	Keep capital expenditure at or below 4% of revenue	**3.5%**	3 6%

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Further service transformation contracts

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£1bn

projected savings over 10 years

Since April 2006 we've implemented major enhancements to the Council's ICT infrastructure, including a £2m investment in a new server estate We've consolidated seven service desks into two and are rationalising 550 applications to 150 As a result, email speed is up 500%, traffic has grown 30% and reliability has increased significantly The number of help desk calls now answered within 20 seconds has increased from 40% to nearly 90%

Impressed by this performance, the Council has expanded our role. In 2006 we won additional contracts to support more investment in frontline services, transforming the way the Council interacts with citizens and stakeholders and further increasing customer satisfaction. Our goal now is to deliver total cost savings of £1bn over 10 years.

2A. Maintaining strong structure and control

Our management structure and business reporting process promote accountability and knowledge sharing across the Group, keeping management responsive to issues and trends in the business and the wider marketplace

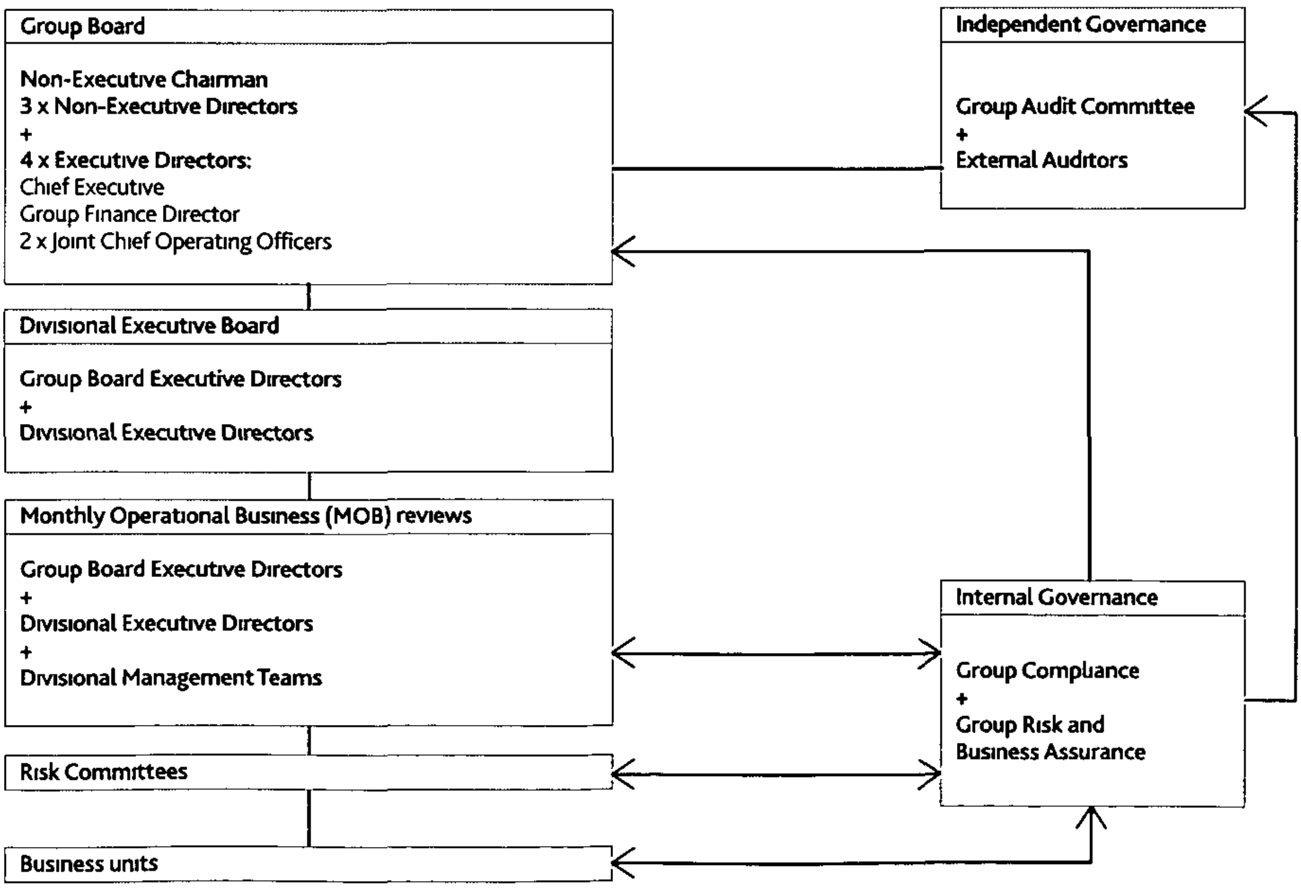
The Group Board comprises a Non-Executive Chairman, three Non-Executive Directors and four Executive Directors – Chief Executive, Group Finance Director and two Joint Chief Operating Officers The Board is responsible for establishing, maintaining and reviewing the Group's growth strategy, financial performance and systems of internal control.

The Divisional Executive Board comprises the Group and Divisional Executive Directors It sets, communicates and monitors the application of Group-wide policies, procedures and standards

The Joint Chief Operating Officers and Divisional Executive Directors are responsible for the development and performance of the divisional businesses They work with and delegate responsibility to their management teams

Each of our business units prepares a comprehensive annual business plan This includes monthly revenue and cost forecasts for the year ahead, taking into account new service/product developments and changes in the competitive landscape The business unit financial plans feed into the Group financial model

Monthly Operational Business (MOB) reviews focus on the performance of each business unit in each division Each division holds pre-MOB reviews where management teams assess each unit's performance against plan and discuss its ongoing development This enables them to determine how planned targets will be met and identify potential difficulties at an early stage These are forums to share knowledge and challenges, develop tactics, reallocate resources and refresh strategies to meet or exceed business plans Group Board Executive Directors attend divisional MOBs, ensuring they have a detailed knowledge of the progress of the divisions and a monthly view of actual and anticipated performance against business plans



2B. Focusing on clear financial KPIs

We are a financially focused business We monitor and challenge financial performance at all levels to probe the health and progress of our businesses and promote accountability As well as profitability, we use a range of financial measures at Group level. Collectively they form an integral part of the way we build consistent, long term value for our shareholders

We focus particularly on KPIs in six areas operating margins, free cash flow, capital expenditure, return on capital employed (ROCE), gearing and economic profit

Operating margins

Aim to maintain and strengthen margins We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective To achieve this we

- → Focus on adding value and applying innovation
- → Use our increasing economies of scale
- → Focus constantly on our cost base
- → Offshore back office activities to India
- → Increase the utilisation of our business centres
- → Apply and share technology

In 2007, we continued our long term trend of improving operating margins (before amortisation) with an annual increase of 14 basis points (bpts) to 13 1% (2006 19 bpts to 12 9%) This is due to a combination of factors including operational leverage, increased use of offshore facilities, and a continued focus on sharing IT platforms and rationalising infrastructure

Cash flow

Aim to maintain strong operating and free cash flow In 2007, we generated operating cash flow of £334m, representing an operating profit to cash conversion rate of 123% Our free cash flow, defined as operating cash flow less capital expenditure, interest and taxation, increased by 19% to £184m Our success reflects the strength of our business model and management approach, in particular

- → Securing timely payment terms for new contracts
- → Focusing on cash generation
- → Providing quality service to clients
- → Maintaining an efficient internal finance function

Our business goal and strategy Controlling and measuring growth

Capital expenditure

Aim keep capital expenditure (capex) at or below 4% of revenue This helps us to focus investment on the opportunities that generate greatest shareholder value and avoid tying up too much capital in long term projects

In 2007 we met this objective, with net capex at 3 5% of annual revenue

We believe capex at or below 4% is sustainable for the foreseeable future There are currently no indications of significant capex requirements in our business forecasts or bid pipeline But we would not rule out the possibility of exceeding 4% if we saw an exceptional opportunity to use our financial strength as a competitive advantage

Transforming TV Licensing

In July 2002 the BBC transferred the management of the TV Licence scheme from the Post Office (then Consignia) to Capita Our role includes processing queries, applications and payments, maintaining an accurate licence database and identifying licence evaders.

Transfer of 1,500 staff to Capita

+

New customer contact centre

=

330,000

more licence sales in two years

A dedicated team oversaw the transfer of 1,500 staff to Capita But we felt the existing operation was insufficient to deliver the service, so during the transition phase we designed, built and staffed a new customer contact centre in Darwen and moved TV Licensing's head office and 600 staff to new premises in Bristol.

Since then we've moved from licence enforcement to a more proactive, sales focused approach, including a successful sales operation which has created 110 new jobs Working closely with our partners, we've reduced the rate of evasion from 5 7% to 5 1% and raised the proportion of Direct Debit customers by 21% In the past two years we've also generated an extra 330,000 TV licence sales.

Return on capital employed (ROCE)

Aim steadily increasing ROCE which exceeds our cost of capital. This ensures that we add shareholder value over the long term In recent years we have successfully widened the margin between the cost of our capital and the returns we generate by investing it

In the adjacent chart, the weighted average cost of capital (WACC) indicates the return that could be expected from the capital invested in the business It is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities We have calculated our WACC assuming a risk free rate of 4 45%, an equity risk premium of 5 4% and a Beta of 0 89%

During 2007, our post tax return on average capital employed improved to 19 6% (2006 18 5%) This compares to our estimated WACC which is 8 6%

	2002	2003	2004	2005	2006	**2007**
PBIT (£m)	107*	131	156*	183	225	**271**
Average capital (£m)	575	645	696	776	880	**998**
Tax (%)	291	281	281	277	277	**277**

*excluding exceptional items

Growing resources

Our people

The number of people employed by Capita has grown rapidly over the last five years due to a number of large acquisitions, contract wins, and underlying growth of the business We've moved from 15,000 employees in 2002 to approximately 30,000 today, a trend that looks set to continue into the foreseeable future

Gearing

Aim maintain a conservative and efficient capital structure, with a relatively low level of gearing It is important for our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf The Group has considerable headroom to take on further debt if necessary, as indicated by the interest cover ratio and net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) However, we would be unlikely to incur borrowings which would reduce interest cover below seven times

Economic profit

Aim achieve steadily increasing Group economic profit. We are focused on delivering value for our shareholders An effective way of measuring this is to assess whether after tax returns are sufficient to cover the returns required from all our capital providers Group economic profit allows us to assess whether the return generated on the average capital base is sufficient to meet the return requirements of our investors (debt and equity) Positive economic profit therefore means that we have created value

2C. Maintaining careful risk management

Systems and procedures are in place across the Group to identify, assess and mitigate major business risks that could impact the delivery of our growth strategy Monitoring our exposure to risk is an integral part of the MOB process, described on page 16 Across our regulated businesses this is supplemented by formally constituted committees

At Group level, risk management is independently facilitated and challenged by the Group Risk and Business Assurance function, which reports to the Group Finance Director and independently to the Audit Committee See information on pages 16, 21 and 53

Balance sheet gearing

	2007	2006
Net debt		
Bond debt (£m)	**479**	379
Bank facilities (deposit)/drawn (£m)	**45**	(9)
Loan note (£m)	**2**	22
Total net debt (£m)	**526**	392
Interest cover	**8x**	9x
Net debt to EBITDA	**1 7**	1 5

	2002	2003	2004	2005	2006	2007
PBIT (£m)	107*	131	156*	183	225	**271**
Avg capital (£m)	575	645	696	776	880	**998**
Tax (%)	29 1	28 1	28 1	27 7	27 7	**27 7**
WACC (est %)	8 5	8 5	8 5	8 2	8 4	**8 6**
Capital charge (£m)	(49)	(55)	(59)	(64)	(74)	**(86)**
Tax (£m)	(31)	(37)	(44)	(51)	(62)	**(75)**
Economic profit (£m)	27	39	53	68	89	**110**

*excluding exceptional items

Risk category	Risk mitigation	2007 update
New contracts	→ Group Board involvement in all major contracts → Aligned with core competencies and financial targets → Rigorous pricing and risk assessment, separate from sales process → Secure appropriate pricing and contract terms to ensure fair risk/reward profile → Detailed, tailored transition process to ensure continuity of service and retention of staff	→ Ongoing
Acquisitions	→ Aligned with core competencies and financial targets → Rigorous, risk-based due diligence process → Fit with strategy and pricing is subject to consideration and approval by the Group Board → Clear transition process to ensure adoption of Group policies and procedures.	→ Ongoing
Operational risk	→ Escalated via the MOB process and Risk Committees to Divisional Executive Board and Group Board as appropriate → Processes and appropriate multiple operating performance indicators in place across all businesses/contracts → Key Group forums in place strengthening operational risk support in the areas of: – Information Security – Business Continuity – Payment Card Industry compliance → Particular focus on information security and developing policies, procedures and raising awareness across the Group	→ Regular security risk assessments are carried out in areas that manage sensitive customer data to ensure the strongest levels of security are in place → Recent national events such as flooding, transport disruptions and epidemics have been learnt from and developments made to existing business continuity plans to deal with more frequent major incidents.
Fraud	→ Mitigating policies and procedures are promulgated by the Group Risk and Business Assurance function in conjunction with Group compliance	→ The Group's tailored fraud awareness computer based package has been updated and is being rolled out as refresher training across all business units → Fraud benchmarking exercises are regularly carried out in key areas of the Group to constantly assess levels of fraud prevention in place against current best practice
Regulatory and legislative impacts	→ Monitored by the Group Compliance function reporting directly to the Group Finance Director and independently to the Audit Committee → Review and communications process for regulatory and legislative change that impacts Group-wide → Separate challenge and review process for businesses operating in a regulatory environment. These businesses have comprehensive processes embedded into their business functions to address specific regulatory requirements.	→ Financial services regulation is monitored by the Group Compliance function reporting directly to the Group Finance Director and independently to the Group Audit Committee → Review and communications process of other regulatory and legislative change that impacts the Group is dealt with by the relevant business area (i.e. Group HR, Group Legal, Group Risk etc)
Financial	→ Capital expenditure is subject to rigorous budgetary controls and spending above specified levels requires Group sign off → Financial performance of each business unit is monitored each month and actual progress against plan is challenged by the Executive Divisional Board → Treasury management – the Group's principal financial instruments for fundraising are bonds, unsecured loan notes, finance leases and overdrafts. The Group has various other financial instruments such as trade creditors and debtors that arise directly from its operations. Where appropriate, the Group may also use derivatives to hedge its exposure to fluctuations in interest rate and foreign exchange rates. It is the Group's policy that no trading in financial instruments will be undertaken	→ Ongoing
Attracting and retaining staff	→ Investment in training and development – Competitive, appropriate incentive schemes – Succession planning is a key element of MOB process	→ Continual development of our screening and reference process for all staff
Reputation	→ Robust process for handling and escalating enquiries/complaints from all stakeholders at both a business/contract and Group level – primarily clients, media, public and suppliers	→ Centralised proactive and reactive PR team to promote Group, separate businesses and manage communications regarding issues
Procurement	→ Active supplier engagement and management processes	→ Supplier registration and approvals processes are in place. A new Supplier Development Programme for key strategic suppliers has been implemented in 2007

3. Managing our business responsibly

We are committed to growing the business in a transparent and socially responsible way that is sustainable for all stakeholders over the long term.

We focus on five main areas and these remain our priorities for 2008:

A. Delivering value to shareholders

B. Building scale and capacity to support our clients and share economies of scale

C. Managing resources well by actively attracting, developing and growing our workforce and their skills

D. Creating successful supplier relationships to ensure quality, responsible and cost effective partnerships across the Group

E. Supporting the communities in which we work and controlling our environmental impacts through socially responsible business practices.

Transforming the Teachers' Pension Scheme

Outsourcing the Teachers' Pension Scheme to Capita in 1996 saved the Exchequer over £20m during our first seven-year contract. So it's perhaps not surprising that we won a second contract after a competitive tender in 2003 to run the service for a further seven years

+

New contact centre

Improvements in productivity

Business KPIs for 2007

KPI	Aim	Progress 2007	2006
Managing resources well	Maintain high retention rates for senior managers (earning over £90k p a)	**89%**	91%
	Maintain overall employee retention at or above industry average (81 9%[1])	**82%**	82%
Building scale & capacity	Continue to grow our infrastructure of business centres to meet the needs of our growing business	**55 business centres**	52 business centres
Create successful supplier relationships	Audit all existing tier one suppliers against Capita's standards of business – 50% of suppliers to be audited by end 2007 New target set for 60% of suppliers to be audited by end 2008	**41% suppliers audited**	Supplier audit commenced
Socially responsible business practice	Continue to measure and assess our carbon footprint to reduce our impact on the environment – new benchmark established to be measured annually	**58,523 tonnes**	not available[2]

[1] CIPD 2007

[2] Last measured in 2004 across a different set of sites

\+

New business generation

=

48%

cut in costs

Before we began running the Teachers' Pension Scheme for the Department for Children, Schools and Families, member queries were answered in weeks rather than days Files could easily be misplaced, leading to low productivity

We set up a single contact centre for all customer queries, and added email and online communications channels While almost halving the staffing requirement from 450 to 250, we generated enough new business to redeploy 98% of potentially redundant employees to other pensions contracts. We actively encourage staff to pursue professional qualifications, and ISO and IiP accreditation have contributed to a staff retention rate of 97% and average service levels of 98% Having cut operating costs by 48% from some £17m to under £9m a year, we're currently working to generate further savings

3A. Delivering shareholder value

Through maintaining a strong structure and controls, focusing on clear financial KPIs and applying consistent, careful risk management, we succeed in creating sustainable growth and delivering healthy investor returns (see pages 14–20)

We use surplus cash to deliver further shareholder value in three main ways – through acquisitions, dividends and share buybacks

I Funding acquisitions where we see opportunities to add value

In 2007, we invested £114m in 12 acquisitions and investments and our pipeline of potential target acquisitions remains at a healthy level. While continuing to be extremely selective, we anticipate a similar volume of small to medium sized transactions in 2008 See pages 12–13 for further details

II Distribution to shareholders through dividends

The Group dividend strategy is to return surplus cash to shareholders through a combination of progressive dividends and, when appropriate, capital returns

Regular dividends A key element in the creation of shareholder value is a progressive dividend policy Over the five years to 31 December 2007 we grew our dividend at a compound annual rate of 32% Our confidence in the strength and resilience of our business model has allowed us to reduce annual dividend cover gradually for 2007 we continued this trend, reducing cover to 2 35 times

Dividends

	2002	2003	2004	2005	2006	2007*
Interim dividend (p)	1 00	1 30	1 75	2 10	2 70	**4 00**
Final dividend (p)	2 00	2 70	3 60	4 90	6 30	**8 00**
Total dividend (p)	3 00	4 00	5.35	7 00	9 00	**12.00**
Dividend cover	3 5x	3.3x	2 9x	2 7x	2 6x	**2 35x**

*before special dividend

Special dividends

	2007
Special dividend (p)	**25**
Total returned to shareholders (£m)	**155**
Shares cancelled (m)	**20**
% of shares cancelled	**3 2**

Share buybacks

	2002	2003	2004	2005	2006	2007
% of share capital authorised to repurchase	–	10	10	10	10	**10**
No of shares repurchased (m)	–	5.2	8 9	13 3	52 9	**6 6**
Total cost (£m)	–	12.2	27 7	49 9	246	**44**
Average price (p)	–	235	311	375	465	**665**
Issued share capital at year end (m)	–	667	671	671	617	**609**
% of share capital repurchased	–	0 8	1 3	1 9	7 9	**1 1**

Special dividends Taking account of the Company's strong cash flows, potential acquisition pipeline and other potential investment opportunities, in July 2007 the Board declared a special dividend of 25p per share – effectively returning some £155m of surplus capital to shareholders This was paid in addition to the interim dividend on 19 October 2007, to shareholders on the register at the close of business on 14 September 2007

We also undertook a share consolidation, issuing 30 new shares for every 31 old shares The principal purpose of this was to ensure that (subject to normal market movements) the market price of each new ordinary share matched what the share price would have been if the special dividend had not been paid This means that earnings per share and share prices can still be compared fairly with previous financial periods

Group interest cover for the year ended 31 December 2007 was 8 times

III Opportunistic share buybacks

We have continued to undertake share buybacks opportunistically, when market conditions allow, to maintain an efficient capital structure and minimise our long term cost of capital

In 2007 we repurchased 6 6m shares (representing 1 1% of the issued share capital) at an average price of 665p

Transforming **Cumbria's public services**

In February 2001, Cumbria County Council and Capita began a seven-year strategic partnership based around three core objectives providing value-for-money services to the community, creating new jobs, and providing significant capital investment for the region It covers a full range of HR, IT, finance, property and highways services

Strategic partnership

+

£7m new regional business centre

=

£6.1m

savings and 350 new jobs

Since it began, the partnership has delivered savings of £6 1m through consistent and improved delivery of service Staff productivity has increased, attrition has fallen to 3 9%, and absence is down to just 2.3%

In June 2003 we demonstrated our commitment to the area by opening a state-of-the-art £7m regional business centre in Carlisle We've also invested in a network of business centres across Cumbria and set up a new Council Tax Revenue and Housing Benefits processing centre in Carlisle, employing 60 people and geared for future expansion

In all, we've created 350 jobs and grown business by 50% in six years. We continue to look for opportunities to create jobs, achieve further savings, and deliver better services.

3B. Building scale and capacity

Growing our infrastructure to support our future growth

We have built up an extensive operational infrastructure and a depth of capabilities which enable us to fully support our clients, providing flexible operating models and sharing economies of scale

Our continued growth and success depends on having the right resources in place both in terms of infrastructure and people
To sustain our high contract win and retention rates, we have to satisfy clients that we have the operational scale and capability to deliver our promises – whether on relatively simple contracts or large scale, multi-service partnerships.

We continuously assess the needs of each business unit to ensure that we have the necessary people, infrastructure and resources for current and future development. Each month, through the Monthly Operational Business (MOB) review process, we monitor and review comprehensive operational management information enabling us to manage the business in a way that delivers our key financial aims

Leveraging scale and resources

The substantial scale and broad capability we have created enable us to put forward increasingly compelling propositions to clients and win major integrated service transformations across the public and private sectors

The recent addition of progressively larger contracts, with common processes and substantial numbers of transferring staff has accelerated the growth of our operations and resources This in turn enables us to deliver more services and contracts through shared ICT platforms and operating structures, providing greater benefits to clients They benefit not only from substantial cost efficiencies but also from greater access to specialist skills and flexible service delivery models

Business centres form a central part of our service delivery infrastructure
Our business centres are service centres of excellence, where we are able to run a broad range of shared services to provide cost efficiencies to customers and a higher level of service quality

At the end of 2007 we had an infrastructure of 54 business centres onshore in the UK, nearshore in Ireland and the Channel Islands, and offshore in India We have now added a further centre in Pune, India These centres are specialist centres, delivering services to multiple clients or providing multiple services to a single client

This gives our clients exceptional flexibility It allows us to deliver services in the most appropriate and cost effective way by accessing centres of expertise, economies of scale and a choice of operating cost models As excellent reference sites, they are also essential to the sales process, allowing potential clients to see operations first hand and to speak with operational staff who have transferred to Capita from client organisations

Business centre network

Onshore	Nearshore	Offshore
UK	Ireland, Channel Islands, Gibraltar	India
48 business centres	**4 business centres**	**3 business centres**
Back office admin	Customer services	Data validation & entry
Customer services	Life & pensions admin	Claims & policy admin
Life & pensions	Financial services	Fund management admin
IT & software	Corporate registrars	Accounting & finance processing
Resourcing & training		
Share registration		
Property consultancy		
Electronic document processing		
Claims & policy admin		
HR admin		

Blended service delivery

Our infrastructure allows us to offer clients a 'blended delivery solution', where appropriate The establishment of our offshore operation in India in 2003 has enabled us to offer UK-based clients an alternative operating model to UK-based service delivery Clients can now seamlessly access both our UK and India centres to deliver an outsourced service Our offshore operations, based at three locations in Mumbai and Pune, are being used to make significant savings, provide flexibility, raise service quality and deliver increased productivity Clients can access key skills and expertise in India which may be in short supply in the UK, at a significantly reduced cost and increased service quality By combining onshore and offshore resources we can deliver maximum service flexibility, quality and cost effectiveness We can do this because our comprehensive security and quality assurance systems ensure consistent service quality across the entire infrastructure

3C. Managing resources well

Our greatest resource is our people, who are key to our success We aim to attract, develop and retain talented, ambitious people so that we have the resources we need to help our clients and grow our business

Our employees are crucial to the success of the business and we therefore need to help them reach their full potential We ensure our managers have the right training and knowledge to embed Group policies at local level, and we empower them to make decisions and respond quickly to clients' needs and business issues We encourage an open culture where ideas are aired regardless of position and shared across similar operations where they may add value

20 years ago we employed just over 100 people Today we have over 29,000 Numbers have almost doubled in the last five years with a fast growing workforce in India

Attracting the right people

Being able to attract the right people is essential As the Group has evolved, the opportunities available to employees have grown, making us increasingly attractive to people looking for a challenging and varied career Our success and financial strength mean we can also offer a stable and inspiring workplace In addition to direct recruitment, transfers under new outsourcing contracts bring us a constant flow of talented and experienced people

We have created an environment which rewards performance Remuneration packages across the Group are set at levels that keep us competitive in each part of the business For our senior people, responsible for the overall direction and performance of the Group or its component parts, a significant element of their financial reward is linked to the financial success of the business

Investing in our people

e-learning

Our comprehensive training and development programmes align continuous personal development with performance improvement Through our training programmes, buddy system, on-the-job coaching, and regular performance reviews, employees have the skills to do their jobs and a clear path for career progression We are expanding our e-learning programmes following the success of our e-induction which has received a 98% satisfaction rating from employees

Our business goal and strategy Managing our business responsibly

Our success is closely linked to our diverse, inclusive culture

In 2006 we created a combined equality and diversity policy, the key aim of which is to achieve employee profiles that reflect the local communities in which we operate To ensure its effective delivery, in 2007 we launched the first stage of our Diversity Action Plan, appointing diversity champions throughout the business and incorporating online diversity training Already 22% of employees have undertaken this training

Our policies are designed to support and comply with all relevant UK, European and International human rights and employment legislation, and meet International Labour Organisation standards These policies are embedded in our training and operational procedures

Retaining and developing people

To maintain our growth we need to demonstrate our ability to deliver consistent, reliable service To do this we must retain key people and provide appropriate training

We ensure our employees have the right skills to deliver quality service through three main types of training

- → Specific job-related skills
- → Personal development
- → Professional qualifications

We provide training through the most appropriate channel, with the majority delivered by our own training business In an effort to make training more accessible, we've recently made all training courses available online Take-up and satisfaction with online training has been high – our e-induction course received a 98% satisfaction rate

As part of our commitment to equal opportunities, and in recognition of the needs of our diverse workforce, Capita has adopted a family-friendly approach We offer flexible working arrangements which benefit both the organisation and employees, including part-time hours, home working, job sharing, term-time working and flexi-time We also offer time off for professional development and volunteering We believe this approach benefits not just individuals but the Group as a whole

We have a comprehensive suite of flexible benefits and put great emphasis on encouraging employee ownership through our share savings and ownership schemes In 2007, 20% of the Group's eligible employees had share options or owned Capita shares

Succession planning is a key element of our MOB process to ensure that we have the appropriate resources in place to maintain stable leadership and to guarantee service continuity for clients It is continually reviewed by the Group Board

Recognised achievement

Capita excellence awards

Through these annual awards we recognise and share examples of outstanding personal contributions to our business The awards celebrate the core values that embody our organisation and reward outstanding examples of our culture in action Categories include Effective Teamwork, Service Excellence, Innovation and Community Involvement All nominees are invited to an annual awards dinner to celebrate their success

Managing and inspiring people

We have a structured approach to people development that encourages and creates motivated, effective teams capable of high performance

We empower business level managers to manage their teams successfully, and equip them with the necessary tools and training in leadership processes and procedures Our leadership development programme, IMPACT, is supported by our employee intranet, CAPITA*connect*, and our ideas-sharing culture is reinforced by transfers and secondments across the Group

Our ability to manage employee integration is one of our greatest assets Over two-thirds of our employees have transferred to Capita through outsourcing contracts or acquisitions, and their smooth integration is essential. We have evolved highly refined and supportive transfer procedures and our managers are trained in implementing strategies to develop and inspire people The results are evident in improved sickness and attrition levels and transformed service standards.

1,300 employees are currently based in India A further 1,250 will transfer in 2008 as part of the Prudential contract, doubling our offshore operations We apply the same principles to all newly-transferred employees regardless of their location, and our Staffcare programme ensures they have the information they need to understand what transferring will mean for them In India, for example, potential employees want to be reassured that we can offer sustainable career development opportunities, alongside more practical concerns such as support for travelling to work

To recognise success, we run original and entertaining incentive schemes aligned with performance targets We also run an annual awards programme to recognise exceptional individual and team performance The awards reflect the key attributes that we see as core to Capita's ethos – effective team work, innovation, service and community

We attach great importance to healthy two-way communication with an 'open door' policy across the Group, supplemented by more formal communication channels Our people also have the opportunity to communicate their views in an annual employee survey

3D. Creating successful supplier relationships

Effective procurement and supplier management give us access to the right external resources on competitive terms. Our scale enables us to negotiate favourable terms and develop strategic, responsible relationships with our suppliers.

Supplier management

Our supplier relationships are managed at two levels, our Group Procurement team who manage our Group-wide contracts and at a local or business unit level where there is a particular category expertise

We have established partnerships with our key suppliers to ensure that we are able to negotiate beneficial Group-wide terms and assist them in reflecting high levels of service standards and responsible business practices across their business and supply chain

We maintain a comprehensive database of all suppliers, segregated by supplier type and product/service category ensuring that client requirements for supplier information can be readily provided The database is used as a tool to deliver against these requirements

We're committed to developing small to medium sized enterprises (SMEs), ensuring that these suppliers are placed on a level playing field with larger suppliers used within the business Our profiling capability is comprehensive and allows us to profile a myriad of different types of supplier from large to small and in any industry sector

Our key supplier programme and supplier diversity plan ensure suppliers meet our own corporate responsibility, equality and diversity and performance standards Within the programme we define our 'ideal' supplier, specifying not just technical competences but also culture and values, environmental credentials, health and safety record and commitment to corporate and social responsibility

We have a wealth of experience in working with sub-contractors and niche partners, using their specialist skills for the delivery of the most appropriate and cost effective services We have a sub-contracting policy and apply stringent criteria in selecting sub-contractors, managing all our suppliers and sub-contractors under the same principles, and ensuring that they work within a fully integrated delivery and reporting framework. A comprehensive procurement policy will be launched this year

Wherever we can, we work in partnership with our clients and subcontractors to positively influence the environmental performance of projects on which we are engaged

Transforming BBC Information Lines

In 1998 the BBC outsourced its customer service function to Capita Its aim: to increase capacity and meet customer demand for greater accessibility. The service now covers all BBC output – TV, radio, the website, interactive TV and events.

Transformation plan for 100 existing staff

+

New contact centre and 100 more staff

=

£1m

savings a year

We transferred 100 existing call centre staff and opened a new contact centre in Belfast to handle long term growth The service now runs 24 hours a day, 365 days a year, employing 200 staff who can take up to 40,000 calls an hour Interactive voice recognition software, upgraded scanning facilities and an email auto-reply facility have freed up staff time, allowing a greater focus on value-added services Increased efficiencies have enabled us to increase capacity by 40%

Rigorous quality control ensures high standards of customer service Staff training and development, plus our comprehensive performance management system, continually improve individual and team quality And callers appreciate the difference in a recent MORI poll, 89% expressed overall satisfaction

3E. Undertaking socially responsible business practices

Controlling our environmental impact

Due to the nature of our business, Capita has a low environmental impact compared to organisations of similar size in other industry sectors This is confirmed by our FTSE4Good environmental impact rating of 'low' However, we understand that good environmental management is integral to our business and make every effort to minimize the impact of our operations

Energy

Our most significant environmental impact is energy In 2006, we launched a Group- wide programme to reduce the amount of electricity used at 18 of our largest sites by 12% by the end of 2008 We are progressing well against our targets, having reduced the amount of electricity used by 8% (an emissions reduction of just under 1,000 tonnes CO_2), and will be rolling the programme out to the entire Group in 2008

We have also been working with the Carbon Trust to educate our facilities managers and are about to launch Capita's "green pages" – an area on our intranet giving staff information about what they can do to reduce their own and the Company's carbon footprint

Transport

Transport is the other area in which we have the biggest environmental impact Our company car policy states that all new and replacement company cars will be diesel, and 95% of our fleet cars have switched to diesel The policy is undergoing a review to reflect changes in Health and Safety liabilities, keep it attractive to staff and increase incentives to reduce carbon emissions by improving the flexibility for drivers to trade down to cars with lower emissions

We try to reduce car travel generally and continue to promote the use of our BT conference call facility throughout the business, with over 34,000 conference calls made over the last year, a third more than the previous year We also support local initiatives such as lift sharing and shuttle buses to and from our offices and are evaluating the Government's 'cycle to work' scheme

Waste

In order to be a sustainable business we need to look at the resources we use, how we recycle them, and how we dispose of them

This year we have worked with our suppliers to source environmentally friendly products, and through our work with Office Depot have increased the proportion of environmentally responsible goods available to Capita sites As a direct result, 17% of our total contract spend with Office Depot in 2007 was on environmentally responsible products

We also continued to develop effective waste management policies and run various recycling schemes to ensure used IT equipment, toner cartridges, mobile phones and paper are either recycled or responsibly disposed of, as set out in the EU WEEE Directive

In 2006, we set up the Digital Pipeline Initiative, donating our redundant IT equipment to schools and community centres in developing countries In 2007 we donated over 8,000 units

Minimising our impact

Reduction in CO_2 emissions

In 2006, we set a target of reducing electricity use by 12% at 18 of our largest sites by 2008 We are progressing well towards this target, with overall savings of 8% to date, an emissions reduction of just under 1,000 tonnes of CO_2 On the back of this success we will be rolling the programme out to the rest of the Group – starting with sites that have Group electricity and gas supply contracts

Supporting our communities

The nature of our business means that we are based in the heart of the communities we serve Our interest in corporate responsibility (CR) arises from a recognition of the impact our business operations have on those communities

We have created a community investment and engagement strategy that focuses on how businesses and staff can make a positive impact on the communities in which they operate

There is direction and assistance from the Group but businesses are empowered to undertake local initiatives that are most appropriate to the needs of their local communities

Our strategy focuses on two areas – local community partnerships and charitable initiatives

Local community partnerships

Our regional partnerships have helped to increase job creation, local purchasing and investment in community initiatives Our regional business centre strategy for creating new sites also helps to channel job creation opportunities to deprived areas Our businesses are also encouraged to invest in and support local initiatives that add social or environmental value

Charitable initiatives

At a corporate level our charitable strategy is to support initiatives that address social and educational exclusion whether due to disability, economic or social circumstances

2007 marked the end of our successful corporate charity partnership with the NSPCC and The Prince's Trust. Our partnership directly raised £1 55m and a further £1 7m through sponsorship of the charities' events

From 2008, following feedback from employees, we decided to support one charity, chosen by staff, at Group level alongside specific local projects Staff voted to work with Macmillan Cancer Support. As employees were fully involved in the selection process we hope to see greater engagement over the next year

As our business expands, our community programme will grow to reflect these developments With continuous employee consultation, we will refresh and widen our programme – supporting our staff-selected charity or local charities where our corporate charity is not represented – as well as specific local community projects

To reflect the growth of our operations in India we have set up a community initiative in Mumbai, initially providing support for an orphanage and its school We work closely with our operations in each community to identify the best way of contributing to the community

Full details of our CR priorities, initiatives and progress are detailed in our annual CR report available at **www capita co uk/corporate-responsibility**

Charitable engagement

The Capita Challenge

An outdoor adventure race of mental and physical challenges in which both employees and clients compete together to raise money for our charity partners

By joining in the challenge our customers, friends and stakeholders can strengthen their links with Capita and gain first hand experience of the spirit which sets us apart.

In 2007 we raised £28,000 for the NSPCC and The Prince's Trust through the Capita Challenge

CR Priorities	Aim	Year end 2007	Year end 2006
Environment	Continue to measure and assess our carbon footprint to reduce our impact on the environment – new benchmark established, to be measured annually	**58,523 tonnes**	not available[1]
	Raise awareness of environmental issues and Group initiatives across the business	**Ongoing**	Work group set up to monitor requirements and progress
	Environmental site audit to be undertaken twice each year	**Audits completed**	Audits completed
	Reduce Capita's overall impact on the environment – achieve 12% reduction in electricity used at our 18 largest sites by 2008	**Ongoing**	Target set
	Continue switching fleet vehicles to diesel engines	**95%**	95%
	Achieve further ISO 14001 accreditations at our higher impact sites	**37**	34
	Further promote BT conference call facility	**34,463 conference calls**	21,094 conference calls
	Further promote Digital Pipeline Initiative where used IT equipment is donated to developing countries	**8,000 pieces of IT equipment donated**	5,000 pieces of IT equipment donated
Communities	Job creation to date	**4,700**	4,000
	Corporate donations	**£0 5m**	£0 5m
	Meet our target of raising £1 5m for our corporate charities NSPCC and The Prince's Trust by end 2007 A target of £1m over two years to end 2009 has been set for our new charity partner, Macmillan Cancer Support	**Raised £1 55m**	Raised £1 20m
	Maximise the fundraising potential of our Group-wide charity week	**Raised £48k**	Raised £53k
Health & safety	Ensure we provide safe and productive working environments for all our employees	**58 reportable accidents (RIDDOR)**	58 reportable accidents (RIDDOR)
	Undertake site audits twice each year	**Audits completed**	Audits completed
Senior management retention (earning over £90k p a)	To attract and retain the appropriate level of senior management to drive the strategic direction of the Group	**89%**	91%
Overall employee retention	To attract and retain the right people to deliver Group strategy, maintaining employee retention at or above industry average (2007 81 9%, 2006 81 7%)[2]	**82%**	82%
Employees by location	To have at least 10% of our people based in India by 2009	**4 5%**	3%
Diversity of people	To reflect the communities in which we work.		
	→ Male/female split	**51% male 49% female**	51% male 49% female
	→ Male/female split for management (earning over £50k p a)	**62% male 38% female**	65% male 35% female
	→ Ethnic diversity[3] (employees from ethnic minority groups)	**8% (based on 50% response rate)[3]**	15% (based on 48% response rate)
Part-time working	To provide flexible working hours while ensuring maximum flexibility in Group resources	**17%[3]**	24%
Creating successful supplier relationships	Audit all existing tier one suppliers against Capita's standards of business – 50% of all suppliers by end 2007 A new target of 60% of all suppliers to be audited by end 2008 has been set	**41% suppliers audited**	Supplier audit commenced

[1] Our carbon footprint was last measured in 2004 across a different set of sites
[2] CIPD 2007
[3] Impacted by end of Office Services contract and subsequent transfer of staff out of the Group

4. Targeting growth markets

Leading across a number of growing markets

We are the UK's market leader in providing BPO services. Our unrivalled infrastructure and capability, built up over more than 20 years, enable us to maintain a leading position in the market. Our outsourcing partnerships today are focused on increasing service quality and reducing costs across both back office and frontline customer service processes. Our aim is to transform our clients' operating models to generate value and help to keep them at the forefront of their markets.

Transforming **Zurich Financial Services**

Our £300m partnership with Zurich to provide open book life and pensions administration services is the largest in the UK We were appointed to improve service quality and cut operating costs over multiple sites, delivering customer servicing, policy administration, and new business and claims activities for Zurich's 2 8m UK open book life and pensions customers.

1,200 staff transferred

+

Focus on staff communication

The scale of our infrastructure and breadth of our expertise provide us with a strong competitive edge across our markets and enable us to present strong propositions to clients Most of our markets contain a stable set of responsible competitors providing a healthy marketplace in which to bid New entrants to our markets face significant barriers to entry as it takes time and scale to establish a strong presence

We focus on supporting clients from the UK and Ireland where there are significant opportunities for growth An independent survey has estimated the market's potential at £94 8bn, split 2 1 between private and public sectors respectively In 2007, the total market for BPO was estimated at £5 1bn and forecast to grow at 10% a year until 2011*

Competitor rankings UK BPO market*

	% Market share	
Provider	2007	2006
Capita	22	21
Vertex	7	8
Accenture	6	7
EDS	6	7

*Ovum 2007

Swift service improvement

1 month

to hit contract targets

In March 2006, just a month after we took over, Zurich's Cheltenham and Swindon customer contact centres were both meeting or exceeding the contract key performance targets. Call abandonment was down from 11 6% to 2.3%, while competency and performance was up to 99% Two years on, call abandonment is just 1 8%

The key to success. a carefully managed transition with emphasis on staff communication. Recognising the importance of the operation's 1,200 people, we worked with them to earn Investors in People accreditation – an achievement shared by everyone involved in November 2007 The Zurich Customer Contact Centre was also named Customer Service Contact Centre of the Year (up to 100 seats) at the 2007 National Customer Service Awards.

Our business goal and strategy Targeting growth markets

Drivers behind our markets

We currently operate in nine distinct markets where the drivers for seeking outsourced solutions and professional support services are strong

We constantly expand our offering in existing markets and broaden into complementary new market segments In 2007, our private/public sector split was 48%/52% (2006 48%/52%) Over time, we expect to move closer to the overall market's 2 1 ratio, but we will continue to pursue the most attractive opportunities where we can generate value for our clients and sensible returns for Capita, irrespective of their market sector

Appetite for outsourcing remains strong and we are experiencing an increase in interest from clients in a number of our target market sectors In 2007, we were most active in securing large outsourcing contracts in life and pensions and local government Central government was the quietest market. So far in 2008, we are experiencing buoyant activity across many of our markets but still expect central government to remain fairly quiet, apart from support required to set up service infrastructures for new initiatives

Some of our prospective private sector clients are expecting their market conditions to deteriorate over the next 18 months This is prompting them to explore how outsourcing could help create a more flexible and lower cost operating model Given our scale and expertise in achieving this, we may see growing demand from private sector organisations However, we will continue to pursue such opportunities selectively and ensure controlled growth across the Group

Markets

	% of turnover 2007	2006
1 Life and pensions	**11**	8
2 Insurance	**10**	10
3 Financial services	**4**	4
4 Other corporate	**23**	26
5 Local government	**20**	17
6 Central government	**12**	14
7 Education	**13**	14
8 Transport	**6**	6
9 Health	**1**	1

48% Private (2006 48%)

52% Public (2006 52%)

Private sector

Capita is well established in the private sector Our three largest private sector markets are life and pensions, insurance and financial services We are also supporting a growing number of other corporate organisations, particularly media, retail and telecommunications companies

1. Life and pensions

Capita is delivering new service models to increase client competitiveness

Our deep experience across both open and closed book business gives us a strong proposition. Life and pensions companies continue to face a highly competitive and regulated environment and many are adopting new service models to increase competitiveness This is stimulating demand for outsourcing, which industry analysts expect to grow by 14% annually across the sector to 2011*

We work with clients to keep them at the forefront of their market by raising efficiency, maintaining and enhancing service quality and providing flexible operating models Our specialist skills and software are also attractive to occupational pension providers, as pension scheme structures become ever more complex

Clients engage Capita to help them to

→ Reduce operating costs while improving performance and customer retention

→ Ensure administration processes address increasingly complex regulations and initiatives such as MiFID

→ Bring new propositions such as wrap products to market quickly, to satisfy consumer and adviser demand for more choice

→ Meet adviser demand for new remuneration methods to reduce reliance on upfront commission

→ Respond to rapid change in the distribution marketplace

→ Develop closer relationships with advisers through technology and 'straight-through processing'

→ Access specialist skills (and enhance processes and systems) to meet new pensions legislation and support the shift from final salary to money purchase pension schemes

Services	Divisions
Business process outsourcing	Life & pensions
Customer services	Financial Services
Administration and support	Professional Services
Information and communications technology	ICT & Advisory Services
Finance and treasury	
Consultancy and change management	

2. Insurance

Capita can help the insurance industry to address its challenging operating environment.

Conditions for the insurance industry continue to be tough Companies face increasing regulatory pressures while striving to cut costs, improve efficiency and enhance customer service The rapid growth of internet sales, industry consolidation and intensifying international competition are driving dramatic shifts in consumer expectations, pricing and service delivery As organisations strive to compete more effectively, they look increasingly to outsourcing to deliver both specialised technical solutions and management of non-core services and operations

Annual growth of 6% is forecast in this market to 2011*

Clients engage Capita to help them to

→ Establish effective processes to satisfy complex regulation

→ Reduce operating costs and improve customer service

→ Establish strategic partnerships for low risk service improvement and business transformation

→ Improve management of claims costs, in particular through fraud and leakage prevention

→ Meet customer demand for more transparency, information, flexibility and value

→ Benefit from the continued rise of affinity brands among internet service providers, utilities and retailers

Services	Divisions
Business process outsourcing	Insurance & Specialist Services
Customer services	ICT & Advisory Services
Administration and support	
Information and communications technology	
Finance and treasury	
Consultancy and change management	

*Ovum 2007

Our business goal and strategy Targeting growth markets

Private sector continued

3. Financial services

Capita is an ideal service partner for clients facing a market with fierce competition and growing regulation

Growth has been driven across the board in the last few years by high levels of M&A work, IPOs and retail investor activity New markets are opening up and regulatory changes abroad, such as Sarbanes-Oxley, are continuing to drive work into London Faced with ever fiercer competition and growing regulation, product providers are concentrating on developing and distributing competitive products – and are increasingly keen to outsource back office functions Our uniquely broad range of services enables us to offer them a single view of their customers across their whole product range

Industry analysts estimate growth of 8% annually to 2011* We expect continuing demand for our services even if economic conditions deteriorate, as organisations will need to reassess their operating models to remain competitive Our Registrar business (representing c £60m of the Group turnover) may be affected by a possible turndown in M&A work but this is expected to be offset by demand in other areas of financial services

Clients engage Capita to help them to

→ Manage compliance risk generated by continuing regulatory change

→ Exploit opportunities created by regulatory and legislative change to launch a wide range of new products – all requiring administration

→ Do more for customers and create new premium services

→ Meet financial intermediaries' need for compliant, risk-related sales processes, through intermediary partnerships and bespoke administration systems

→ Benefit from new outsourcing opportunities created by structural changes in markets

→ Take advantage of the new opportunities for overseas companies created by the pre-eminence of the London Markets

Services	Divisions
Business process outsourcing	Financial Services
Customer services	Life & pensions
Administration and support	Insurance & Specialist Services
Human resources	ICT & Advisory Services
Information and communications technology	
Finance and treasury	
Consultancy and change management	

4. Other corporate

Capita helps increase companies' competitiveness by enhancing customer service and improving productivity

The proven competitive benefits of outsourcing have made it increasingly acceptable Right across the private sector, companies' competitiveness depends on unrelenting improvement in productivity, quality and customer service Increasingly, they recognise outsourcing of both back office and frontline services as an indispensable part of achieving this We can add real value to their performance and allow them to focus resources on their central areas of expertise Industry analysts expect this market to grow by 11% annually to 2011*

Clients engage Capita to help them to

→ Reduce processing and administration costs while improving customer service and retention

→ Bring new products to market faster to meet changing customer demands

→ Gain better access to expert operational and advisory capabilities

→ Compete more effectively for skills through focus on employee support and benefits

→ Improve productivity through better management of sickness and absenteeism

→ Meet increasing regulatory and legislative requirements

Services	Divisions
Business process outsourcing	Integrated Services
Customer services	Financial Services
Administration and support	Professional Services
Human resources	HR Solutions & Property Consultancy
Information and communications technology	Insurance & Specialist Services
Property consultancy	ICT & Advisory Services
Finance and treasury	
Consultancy and change management	

*Ovum 2007

Public sector

Capita was formed in the public sector and initially supported local authorities Today, Capita provides outsourcing and support services to central and local government We have built up particular expertise in education and transport and have a growing interest in health

5. Local government

Capita helps local authorities to develop new delivery models and transform services

Transforming public services for the benefit of citizens and communities continues to be an explicit local government priority This is driving local government to seek alternative ways of providing services and creating opportunities for the private sector to help develop new delivery models With over 20 years experience in this marketplace and a UK-wide network of multi service centres, we are uniquely placed to help local authorities achieve effective change

Industry analysts forecast market growth of 8% a year to 2011* This continues to be a highly attractive and buoyant market for Capita

Clients engage Capita to help them to

→ Meet the challenging goals of the 2007 Comprehensive Spending Review, including 3% annual efficiency targets and shared services

→ Respond to the Local Government Act through place-shaping and more partnership working, more strategic commissioning and devolution to communities

→ Deliver Sustainable Community Strategies through greater local cross-agency working and the new Comprehensive Community Performance Assessment (CCPA)

→ Respond to the CCPA's emphasis on efficient use of resources

→ Deliver the Transformational Government agenda for more personalisation and improved citizen access

→ Address key service priorities children's services including education, social /community and economic regeneration and transport

Services	Divisions
Business process outsourcing	Professional Services
Customer services	HR Solutions & Property Consultancy
Administration and support	Financial Services
Human resources	ICT & Advisory Services
Information and communications technology	
Property consultancy	
Finance and treasury	
Consultancy and change management	

6. Central government

Capita works with Government departments to deliver service transformation

Across the public sector there is constant pressure to increase efficiency while simultaneously enhancing service quality As Government departments face ever more demanding financial and service targets, some are engaging with the private sector to help them deliver organisational change and service transformation Our record of successfully delivering complex and high profile transformational projects, supported by effective ICT and process re-engineering, makes us an attractive partner in modernising existing services and supporting future Government initiatives

Market growth of 9% is expected out to 2011* However, we expect in the short term that this growth will be mainly fuelled by requirements for outsourcing to deliver new service initiatives rather than transformation of the Government's existing administration infrastructure

Clients engage Capita to help them to

→ Meet the challenging goals of the 2007 Comprehensive Spending Review, including 3% annual efficiency targets and shared services

→ Develop and modernise infrastructure – e g transport, Building Schools for the Future

→ Deliver the Transformational Government agenda for more personalisation, improved citizen access and cross-government working

→ Enhance partnerships across the public sector

→ Address key service priorities children's services including education, social/community and economic regeneration and transport

→ Ensure that government and public services enhance the UK's global competitiveness

Services	Divisions
Business process outsourcing	Integrated Services
Customer services	HR Solutions & Property Consultancy
Administration and support	Life & pensions
Human resources	Insurance & Specialist Services
Information and communications technology	ICT & Advisory Services
Property consultancy	
Finance and treasury	
Consultancy and change management	

*Ovum 2007

Our business goal and strategy Targeting growth markets

Public sector continued

7. Education

Capita is supporting the Government's strategy to improve educational standards and raise accessibility

The Government has committed further funding to improve educational standards and raise accessibility, but there is a need to ensure value for money as the growth in funding slows down. Government education strategy focuses on educational outcomes and requires changing roles for local authorities and new responsibilities for schools and colleges. We are particularly well placed to contribute because we combine ground-level professional support services experience in schools and strategic management capacity to support local authorities and the Department for Children, Schools and Families ("DCSF")

Industry analysts are predicting market growth rates of 5% out to 2011* We anticipate continuing to build on our activities within this market

Clients engage Capita to help them to:

- → Transform and deliver support services through shared platforms to meet efficiency targets and achieve value for money to underpin education excellence
- → Develop and deliver the wider Children's Services Agenda
- → Make planned investment in systems and ICT to reduce bureaucracy, enhance assessment and improve financial management
- → Set up arrangements for and support implementation of Building Schools for the Future
- → Address the Leitch Review of Skills and the reconfiguration of further education and training
- → Recruit key personnel, including teachers.

Services	Divisions
Business process outsourcing	Integrated Services
Customer services	Professional Services
Administration and support	HR Solutions & Property Consultancy
Human resources	Insurance & Specialist Services
Information and communications technology	ICT & Advisory Services
Property consultancy	
Finance and treasury	
Consultancy and change management	

8. Transport

Capita has one of the UK's largest and most diverse multidisciplinary property and infrastructure consultancies

Our offering spans a broad range of infrastructure and transport consultancy, from strategic and policy issues to effective design and delivery of complete transport management solutions. A key priority for the Government remains road congestion, and it has committed funds to help local authorities explore innovative ways of reducing local traffic. Private sector involvement is well established in this area and our experience of delivering the London Congestion Charging schemes positions us well to assist local authorities

Although we will no longer be delivering the London Congestion Charging schemes from the end of November 2009, we are experiencing steady interest from current and potential local authority clients who want to incorporate transport management solutions into their integrated transport plans

Industry analysts predict market growth of 10% out to 2011*

Clients engage Capita to help them to

- → Implement the Public Service Agreement to cut urban congestion by 2010-11
- → Meet the Government's commitment to road pricing schemes
- → Address local transport needs through public consultation
- → Respond to the Government's commitment to building road and transport infrastructure
- → Use technology to improve network management.

Services	Divisions
Business process outsourcing	Integrated Services
Customer services	Professional Services
Administration and support	HR Solutions & Property Consultancy
Human resources	Financial Services
Information and communications technology	ICT & Advisory Services
Property consultancy	

*Ovum 2007

9. Health

Capita is helping to deliver the increase in outsourced services and public private partnerships that is seen as key to progress in the health sector

Although NHS funding is set to increase, there are significant financial pressures for organisational change to deliver efficiencies, improve commissioning and enhance patient experience through better access to services. Responding to these pressures requires transformation of both back office (support services) and front office (clinical administration) to free-up and support frontline services Outsourced services and public private partnerships are increasingly seen as key to building capacity and delivering the capability and experience necessary to facilitate this change

Industry analysts predict annual market growth of 31% to 2011*

Clients engage Capita to help them to:

- → Respond to funding pressures and the 2007 Spending Review
- → Enhance their commissioning capacity
- → Improve patient access through a transformed front office
- → Rationalise and modernise support services
- → Realise the benefits of new technology, in particular through the Connecting for Health programme
- → Rationalise existing property and reinvestment in new property to improve work environment and patient care
- → Streamline clinical administration to deliver Patient Choice and achieve the 18 week target from first appointment to treatment

Services	Divisions
Business process outsourcing	HR Solutions & Property Consultancy
Administration and support	ICT & Advisory Services
Human resources	
Information and communications technology	
Property consultancy	
Finance and treasury	
Consultancy and change management	

*Ovum 2007

5. Maintaining performance across our divisions

Each of our seven operating divisions consists of a number of businesses and major contracts. Every business is aligned with the Group's overall objectives and strategy.

Every business works to an annual business plan which sets out financial targets and the research, development and resources required to meet or exceed the plan. Performance is reviewed monthly and adjustments to spend, activity and resources are made where necessary.

Transforming **Salford's regeneration**

Urban Vision, our unique joint venture with Salford City Council and construction group Morrison, supports the city's continuing regeneration Responsible for planning and business control, engineering and highways, property and business development support, facilities management and building design, it has played a key part in a fourfold increase in investment in the city's roads to around £7m a year.

400 council employees seconded + **Capita's property consultancy**

The divisional structure supports a robust, individual focus for each business while providing ready access to the Group's wider resources, expertise and economies of scale.

The common aim is to deliver service excellence and generate profitable growth through:

A. Aligning each business with the Group's overall objectives and strategy

B. Investing in service and product development and appropriate sales and marketing activities

C. Maintaining a simple, pragmatic divisional structure to share resources and economies of scale.

+

New procurement framework

=

80

new jobs

By creating a more flexible workforce and enabling staff to work more closely together, Urban Vision has made considerable efficiency savings which can be reinvested in further service improvement.

Through partnership with our property consultancy, Capita Symonds, Urban Vision has helped the Council cut property costs while improving the office environment, boosting staff morale and supporting recruitment and training It has also won new work designing flagship schools under the Building Schools for the Future (BSF) initiative When the Council's landscape design team was seconded to Urban Vision, it was short of work and jobs were at risk. Two years on, it has a full workload and a good forward pipeline

Our business goal and strategy Maintaining performance across our divisions

We maintain a simple, pragmatic divisional structure that delivers our Group strategy

A. Alignment with Group strategy

The operating divisions and the businesses within them all follow the Group strategy of securing strong, sustainable growth, both organically and by acquiring complementary businesses

Each business produces its own annual business plan outlining specific strategies and considerations and setting performance targets for the following year The MOB process described on page 16 ensures regular monitoring and reporting of performance against targets and is an effective forum for planning ahead, solving issues and sharing expertise and support

B. Individual business tactics

With a focus on continuous growth, each business undertakes appropriate tactics to achieve or maintain market leading positions Research and development initiatives underpin the constant development of products and services to meet the current and future needs of clients Businesses adopt the most appropriate marketing and sales activities to address the characteristics of their individual marketplaces

C. A flexible divisional operating structure

We have created a pragmatic, flexible structure which is regularly refreshed as the Group develops We move businesses, contracts and managers across the divisions to ensure the best match of leadership and resources as the Group grows The businesses benefit from the powerful combination of individual focus and the ability to reach out across the Group to share operational skills and resources, benefit from economies of scale, create and deploy innovation, and harness the best of ICT and business processes

We are currently organised into seven operating divisions, plus a Group Sales and Marketing Division Each operating division brings together activities with similar operating models or client bases Each major contract secured by the Group sales team is managed within the division which best meets its operational, regulatory and management requirements

Group-wide support services, such as finance, legal and commercial, property management, procurement, health and safety and environment and HR, report directly to Group Board Executive Directors to ensure robust control, consistent standards and shared benefits across the Group

1 Integrated Services
- TV Licensing
- Criminal Records Bureau
- TfL Congestion Charging
- Central government services
- Administration services
- Business travel
- Offshore

2 Professional Services
- Software services
  - Private sector
  - Education
  - Local government
- Local government services
- Strategic children's services
- Local government partnerships
  - Blackburn with Darwen BC
  - Swindon BC
  - Southampton CC

3 HR Solutions & Property Consultancy
- Integrated HR solutions
- Resourcing
- Veredus
- Capita Symonds

4 Financial Services
- Shareholder services
- Financial administration services
- Trust services
- Sector

5 Life & Pensions
- Life & pensions
- Capita Hartshead
- SIP services

6 Insurance & Specialist Services
- Insurance services
  - Outsourced solutions
  - Specialist services
  - Teceris
- Legal services
- Occupational health
- Customer contact centres
  - eircom
  - DSGi

7 ICT & Advisory Services
- Service Birmingham
- Harrow Council
- IT services
- Mission assurance & testing
- Advisory services
- Communications

Progress across our divisions in 2007

1. Integrated Services

contains all of our major central government contracts and our offshore operations

	2007 £m	2006 £m
Turnover	**302.4**	300 9
Operating profit	**46 6**	46 6
Operating margin	**15 4%**	15 5%
Capex	**9 9**	16 6

2007 developments

→ **TV Licensing** Great strides have been taken to reduce the cost of operation. More usable interfaces have been designed to improve the human interaction with legacy IT systems Intuitive and windows-based interfaces will cut down the time spent training newcomers on the system by over 70% (from seven weeks to two), and will improve transaction handling times by over 20% In the back office, intelligent workflow systems have further enhanced the ability to transition non client facing work to Capita's offshore facility in Mumbai This innovative system has increased the automation of simple transactions These initiatives have increased productivity and delivered cost efficiencies

→ **TfL Congestion Charging**: The Western Extension Zone (WEZ) was effectively and smoothly implemented on 19 February 2007 and we have continued to deliver good service across the extended zone. The contract to deliver the congestion charging scheme across London was not re-awarded to Capita and the contract will finish at the end of November 2009 The Low Emission Zone (LEZ) was successfully implemented on 4 February 2008

→ **CRB** With over 15m disclosures issued and 92% customer satisfaction, the CRB Capita partnership is in its fifth year We continue to enhance the service by progressing phase two of the online tracking service and bringing additional data sources into the PLX checking process, which now totals over 60m records. The contract was awarded silver at the Kablenet government innovation awards and gained the prestigious ISO14001 environmental management accreditation.

→ **Capita Business Travel** Following the rebrand in January 2007, from Lonsdale Travel to Capita Business Travel, the business has secured new sales contracts worth £34m and retained 100% of its top 10 customers – who undertook formal tender processes as contracts expired in 2007 New and renewed contracts have come from public and private sector businesses such as Yell, Alfred McAlpine, Royal Mail Group and OGCbuying.solutions. A strong service reputation and new operational technology and procedures have played key roles in this success The new online booking technology has been well received by customers.

→ **Offshore Services.** Our offshore operation grew strongly in the year and played a key role in securing major contracts, including with Resolution and Prudential. It is now the Group's largest multi-client service centre, employing 1,300 staff and processing more than 1m transactions a month It is fully representative of the Group, servicing both public and private sector contracts and supporting a number of Group businesses.

2008 priorities

→ Continued delivery of operational excellence for clients, thereby strengthening client relationships and gaining vital references for future opportunities

→ Continued focus on introducing innovation and alternative service delivery models, including offshoring, to increase quality and efficiency across contracts

→ Focus on employee retention and training to maintain consistency of service for our long term clients

→ Closer working with the Group Sales Team to identify new sales opportunities, extend relationships and explore service delivery models.

2. Professional Services

comprises our local government services and all our software businesses as well as Capita Strategic Children's Services

	2007 £m	2006 £m
Turnover	**264.3**	191 7
Operating profit	**48 1**	37 4
Operating margin	**18.2%**	19 5%
Capex	**8 1**	6 7

2007 developments

→ **Local Government Services.** Continued its strong performance in 2007, successfully completing Phase 2 of our 10 year partnership with Swindon BC and becoming preferred bidder for Hart DC, a 10 year deal worth approx £10m We also began our 15 year partnership with Southampton CC in October Our service offering has been expanded to meet the growing demand from clients, in particular for customer services and procurement activities.

→ **Local Government Software Services** Our local government service and software businesses continue to work closely together to help clients increase operational efficiencies to meet the challenges set out in the Comprehensive Spending Review We continue to set the highest standards for our products and have become the first major supplier to local government to achieve the Payment Card Industry Data Security standard (PCI DSS) for our payment management products and services

→ **Children's Services** We have successfully brought together and refocused our education service offering in response to the Every Child Matters – Change for Children programme and are recognised as leading providers of consultancy, interim management and software support to children's services authorities We have increased our market share in existing markets and entered new markets such as software services for Children's Social Care, Early Years provision (through our acquisition of CPFR) and Learning Gateways in schools – providing pupils, staff and parents with secure remote access to information Additionally, 94% of our further and higher education clients renewed their software licenses for a further three years.

→ **Private sector software** The benefit of integrating our three recent acquisitions – Quay (back office and client relationships), Webline (quotation and ebusiness) and Synaptic (life, pensions and investment research) – was demonstrated in 2007 with the release of the Enabler modular website for independent financial advisers (IFAs) By combining and integrating these companies' services, we can enable IFAs to enhance their client service and demonstrate compliance with regulatory requirements.

2008 priorities

→ Maintain market share in the local government and education software markets through continued development of new and innovative products to keep pace with changing requirements

→ Expand software services private sector offering and increase leverage from other divisions

→ Continue to enhance market leading position in local government through joint initiatives with other Capita businesses and through partnerships

→ Continue to explore opportunities and synergies across private sector software and document management and imaging services

→ Continue to build on the success of our National Strategies contract and further strengthen our relationship with the DCSF

Our business goal and strategy Maintaining performance across our divisions

Progress across our divisions in 2007

3. HR Solutions & Property Consultancy

comprises our resourcing and property services operations To provide greater transparency they are reported separately

	2007 £m	2006 £m
HR Solutions		
Turnover	**245 9**	205 9
Operating profit	**23 4**	177
Operating margin	**9 5%**	8 6%
Capex	**3 9**	4 4

2007 developments

- **Integrated HR Solutions:** In 2007 we continued building on the foundations developed in 2006 The BBC HR and Northern Ireland Civil Service contracts are now established and operational. New HR outsourcing contracts with Swindon BC, Southampton CC and Leicester and Rutland NHS Consortium went live Our focus remains on developing further our strong HR capability across HR strategy, resourcing and payroll administration, learning and development and outplacement, positioning us uniquely in this market.

  Following the acquisition of NHS Partners from North Bristol NHS Trust, this business is focused on three areas. employee and patient surveys, remuneration strategies and HR information service. The acquisition complements our HR business strategy and gives us a further foothold in the extensive NHS market

- **Resourcing businesses:** These continue to perform well. Capita Resourcing has experienced very good growth, successfully winning a new managed service contract with EDF Energy and seeing strong growth across its niche recruitment businesses
- **Assessment and Testing** This specialist business has developed further longer term contracts, supporting clients such as BAA.
- **Capita Education Resourcing** Continued to make steady progress in 2007 with an increase in Teacher Supply days, particularly in its Further Education Division which increased volume by 69%
- **Capita Recruitment Vetting Service** Had another very successful year with growth of 96% It is now the second largest CRB Umbrella Body in the UK
- **Veredus.** Our senior search and selection brand had a very strong, profitable year across both public and private sectors.

2008 priorities

- Manage the smooth transfer and implementation of new integrated HR contracts
- Develop additional products and services to penetrate new and existing clients, and make further acquisitions to develop or consolidate our position
- Promote our offshore capability where appropriate to clients
- Support Group sales team to sell integrated HR propositions as separate contracts and as part of a wider BPO partnership
- Continue to seek synergies across resourcing businesses and focus on managed resourcing partnerships to secure longer term relationships

	2007 £m	2006 £m
Property Consultancy		
Turnover	**231 9**	199 4
Operating profit	**19 3**	12 8
Operating margin	**8.3%**	6 4%
Capex	**2.7**	31

2007 developments

- **Growth** We are now the UK's sixth largest multidisciplinary property and infrastructure consultancy
- **New business** we secured framework wins from Network Rail, TfL, OGC, Environment Agency, Exxon Mobil, London Development Agency (LDA) and the Olympic Development Agency (ODA) – and were appointed as architect for BAA's £300m Heathrow Terminal 5 Concourse C.
- **Durham City Council.** We secured a two-year extension to our Civil Engineering Services strategic alliance with the Council.
- **Wembley National Stadium.** We are project managers for Wembley National Stadium, which hosted its first FA Cup Final in May 2007
- **Integration** We consolidated our architectural services under the Capita Architecture brand and successfully integrated some 200 staff as part of Group strategic partnerships with Southampton CC and Swindon BC
- **Organisation** We restructured and strengthened the Executive Board under new leadership
- **Recognition** We were listed as One to Watch' in the 2007 Sunday Times Best Companies To Work For Survey

2008 priorities

- Continue to work closely with Group sales team to provide added value integral propositions as part of wider transformation partnership opportunities
- Build on success in selling standalone property propositions to Group clients, particularly in local government
- Continue to foster close working across property and infrastructure disciplines to accelerate organic growth
- Focus on senior-level relationships with top 30 clients
- Increase presence on procurement frameworks to expand access to opportunities across wider markets

4. Financial Services

contains our shareholder, financial and trust administration and treasury services businesses

	2007 £m	2006 £m
Turnover	156 9	120 8
Operating profit	37 3	31 5
Operating margin	23 8%	26 1%
Capex	3 8	3 6

2007 developments

- → **Another excellent year of growth.** Revenue growth was strong across all our operations – for instance Capita Registrars turnover grew by 22% to £61m We processed 6,300 corporate action events with a combined value of £51bn, issued over 7m cheques and administered 130 IPOs (gaining 54% market share)
- → **Organic growth:** Strong organic growth was driven by new products – such as NHS Membership and governance services, Tracing Solutions and SAYE administration – and the renewal of long term contracts with two of our largest share registration clients.
- → **Official Solicitor & Public Trustee.** We successfully implemented our outsourcing contract.
- → **Combining Group skills:** our joined-up approach with Life & Pensions was a key differentiator in winning the Co-operative Insurance contract Over 150 former Co-operative staff transferred to our Fund Administration operations.
- → **New start-up businesses:** We opened operations in the Isle of Man (Registration), Guernsey (Fund Administration) and Dublin (Trustee Services)
- → **Acquisitions:** During the year we acquired the Trust & Fiduciary operations of PwC Channel Islands and Global Fund Administration in Gibraltar
- → **Offshore.** As part of our continuing collaboration with offshore colleagues, we designed and implemented a new product specifically to be 100% delivered from our Indian operations.
- → **Growing market demand:** Increasing complexity in design and delivery of products, such as the increasing use of derivatives in unit trusts, and increasing regulatory complexity – such as the Market Abuse Directive, 3rd EU Auto Money Laundering, MiFID, TCF initiatives and new Companies Act – continue to provide impetus for outsourcing in the industry

2008 priorities

- → Maintain high levels of regulatory compliance across the business and continue to develop solutions to help our customers comply with their regulatory obligations
- → Develop and implement new and more advanced administration systems to reduce risk and increase efficiency via greater straight-through processing and automation
- → Drive margin expansion by relocating jobs to lower-cost delivery areas in England and India and rationalising operational infrastructure
- → Pursue further appropriate acquisitions, including selective investigation of some Western European jurisdictions

5. Life & Pensions

comprises all our life & pensions businesses including open and closed book, occupational pensions and SIPP administration

	2007 £m	2006 £m
Turnover	255 5	184 3
Operating profit	31 6	22 7
Operating margin	12 4%	12 3%
Capex	23 2	18 4

2007 developments

- → **L&P outsourcing:** We are the leading outsourcing provider in this area with over 50% of contracts let. With the start of the Prudential contract in April 2008, we will be administering 22m life, savings and pensions policies This market continues to be very active
- → **New business:** During the year we have successfully transitioned the Co-operative Insurance and Resolution businesses into Capita Both these major contracts have performed well in the first few months.
- → **IT development:** We continue to work closely with Mastek on developing the next generation of the Elixir software that is currently used across a number of clients. The new version will become available in 2009
- → **SIPPs.** In recognition of the increasing influence of key IFA groups and distribution as a whole in the UK life and pensions market, we have extended our open funds access platform supporting our SIPPs business into a more generic WRAP-based capability This allows key distribution firms to have 'straight-through' access to a broad range of providers and funds.
- → **Capita Hartshead:** Our business continues to perform strongly Recent acquisitions have significantly increased our actuarial capacity, which will attract new clients and extend the range of services to existing clients

2008 priorities

- → Maintain high levels of compliance across the business and develop solutions which help clients meet increasingly complex regulatory requirements
- → Achieve further economies of scale by processing a greater number of contracts through our existing infrastructure
- → Achieve a smooth transition of services from Prudential
- → Continue to extend our trading platform across multiple distributor groups and UK blue chip providers
- → Continue to develop our technology platforms to help clients bring new products to market faster
- → Continue to build offshore capability into existing contracts and new proposals
- → Continue to grow our presence in occupational benefit consultancy and actuarial services.

Our business goal and strategy Maintaining performance across our divisions

Progress across our divisions in 2007

6. Insurance & Specialist Services

comprises specialist services and outsourced solutions for the insurance market, occupational health services and outsourced customer service centres

	2007 £m	2006 £m
Turnover	324.5	283.2
Operating profit	36.0	31.3
Operating margin	11.1%	11.1%
Capex	7.2	5.3

2007 developments

→ **Insurance outsourcing:** We have recently been selected by Marsh Ltd as preferred partner to transform and deliver its back office administration services, based in Norwich. As part of this agreement, 650 staff based in Norwich and work based in Pune, India, will transfer to Capita

→ **Acquisition:** The successful integration of CMGL (acquired in April) has made us clear leader in providing support services to the London insurance market. This is enabling us to grow revenues strongly across our core propositions of BPO run-off management services and consultancy

→ **Insurance distribution.** A series of new business successes drove organic growth of the policy books under management by some 40%

→ **DSG international plc:** We generated £120m of sales for DSGi over the year – and this is set to grow following an agreement to handle Currys store telephone calls nationally. We retained the Best Outsourcing Partnership award at the CCA Awards and were runner-up for Best Outsourced Contact Centre

→ **eircom:** Our contracts with eircom continue to develop and grow. Our successful delivery has been reflected in further industry awards in 2007 including Team Leader of the Year at the prestigious Contact Centre Management Association awards.

→ **Occupational Health.** This business continues to perform well, winning contracts with a number of new corporate clients and extending its largest single contract with HMRC for a further two years

2008 priorities

→ Maintain high levels of compliance across the regulated and legal businesses and develop solutions which help clients meet increasingly stringent regulatory requirements

→ Focus on core markets of insurance distribution, claims services, commercial insurance and BPO to drive organic growth through relationships, market presence and quality services

→ Enhance margins through efficient use of technology, management, locations (including India) and cross-selling services across the integrated insurance business

→ Continue investment in enhanced technology and shared technology platforms

→ Position the business to build on the successful services and sales successes of the past two years in core markets, particularly insurance broking and distribution

7. ICT & Advisory Services

contains our ICT business which supports the Group's operations and external clients as well as our advisory business

	2007 £m	2006 £m
Turnover	291.9	252.3
Operating profit	29.0	25.1
Operating margin	9.9%	9.9%
Capex	9.1	4.9

2007 developments

→ **Service Birmingham.** ICT transformation substantially completed, resulting in a robust infrastructure and delivery of IT services that consistently meet target KPIs. Good progress in delivery of Business Transformation programmes with Birmingham City Council. Corporate Services Transformation Programme went live in October and is on target to deliver cashable savings of £28m in 2007/08. Over 500 Service Birmingham employees are now co-located in a single state-of-the-art facility. In the annual Computing Awards we won IT Professional of the Year and IT Outsourced Project

→ **Harrow Council:** Just two years into our 10-year partnership, we have delivered £37m worth of savings against our target of £45m savings across the life of the contract. This has been achieved through a series of IT projects (including delivering SAP financial, MI and CRM systems in just 11 months) in tandem with procurement and process efficiency initiatives. In addition we designed and delivered a contact centre and one-stop-shop, enhancing the Council's frontline services

→ **Capita IT Services:** This business continues to support both external clients and internal contracts and businesses. Particular success was demonstrated in local government by the addition of IT support for the Swindon and Southampton partnerships and a contract extension at South Northants DC. In addition, the business continues to develop specific propositions and services to meet market demand such as service portfolio management and virtualised hosting solutions

→ **Mission Assurance and Testing.** In a record year, Mission's recruitment business achieved its largest ever number of permanent placements and increased the number of contractors deployed by 71%. Its consultancy business won significant new business, particularly in the insurance and retail financial services sectors, and extended existing internal and external client relationships. Mission secured its first substantial multi-year managed services contract and first full outsourcing contract involving the transfer of client staff

→ **Capita Advisory Services.** After a change of management and refocusing of services this business achieved an uplift in trading in the second half of the year. It is now well placed for 2008. It secured new client engagements with Breckland DC, Kingston-Upon-Thames BC, NHS Institute and Nottingham Trent University

→ **Capita Communications.** This new business was formed through the integration and refocusing of our design, print and fulfilment operations to deliver outsourced marketing solutions

2008 priorities

→ Continue to deliver and expand local government transformation partnerships

→ Continue to support Birmingham City Council in achieving its Business Transformation objectives, establish sales from Service Birmingham to other public sector organisations and achieve ISO 2000 accreditation for Service Birmingham

→ Continue to widen and integrate our portfolio of consultancy and support services to meet client demand

→ Continue development of shared ICT platforms and infrastructure

→ Continue to develop and enhance Group-wide ICT to support the Group's expansion and provide scalable solutions for additional major contracts

Governance

Accounts

Board members

Gordon Hurst, David Rigby

Paddy Doyle, Bill Grimsey, Simon Pilling

Maggi Bell, Peter Kelly

Group Board

Eric Walters
Non-Executive Chairman, Age 63
Joined the Group Board in January 2001 and became Non-Executive Chairman with effect from 1 August 2006 Chair of the Nomination Committee and Member of the Remuneration Committee Joined the Group from Alchemy Partners LLP, where he was a senior partner He has held senior positions with Englefield Capital, Schroder Ventures, Grand Metropolitan plc and Lex Service plc and is Non-Executive Director of a number of private companies.

Paul Pindar
Chief Executive, Age 48
Responsible for managing and developing Capita's operations to achieve the Group's strategic objectives Joined the Group in 1987 from 3i, after advising Capita on its management buy-out. A chartered accountant since 1984, Paul is also Chair of the Great Ormond Street Hospital's Corporate Partnerships Board and Non-Executive Director of Debenhams Plc. Paul has overall responsibility for the Group's community approach

Gordon Hurst
Group Finance Director, Age 46
Joined the Group in 1988 from Sun MicroSystems Ltd First appointed to the Board as Commercial Director in February 1995 and then as Group Finance Director in 1996 A chartered accountant since 1986, he is also Company Secretary He has Board responsibility for Capita's overall corporate social responsibility policy and our environment, health and safety approach and supplier relationships

Paddy Doyle
Joint Chief Operating Officer, Age 57
Joined Capita in 1992 and was appointed to the Board in 1994 Jointly responsible for the ongoing operational management of the Group's business units. His background is in IT and outsourcing, previously with Cap Gemini UK (formerly Hoskyns) and AIG Overall responsibility for our employee and human resources policies

Simon Pilling
Joint Chief Operating Officer, Age 45
Joined the Group Board on 1 August 2006 He has joint responsibility for the operational management of the Group's operations. Moved to Capita in 1999 from Sema (now Atos Origin) In February 2002, he was promoted to the Divisional Executive Board heading the Professional Services Division Since January 2005 he has led the Integrated Services Division He has Board responsibility for client service quality

Peter Cawdron
Senior Non-Executive Director, Age 64
Joined the Group Board in September 1997 Chair of the Audit Committee and member of the Remuneration and Nomination Committees Former Group Strategy Development Director of Grand Metropolitan plc and Chief Financial Officer of D'Arcy MacManus & Masius Worldwide Inc. A chartered accountant, he is Chairman of Punch Taverns plc. Other non-executive directorships include Johnston Press plc, GCap Media plc, BUPA and ProStrakan Group plc. He retires from the Board on 30 September 2008

Martina King
Non-Executive Director, Age 46
Joined the Group Board on 1 January 2005 Chair of the Remuneration Committee and member of the Audit and Nomination Committees Former Yahoo! Managing Director for Europe, and the first Managing Director of Yahoo! UK and Ireland, appointed in 1999 A Non-Executive Director of Johnston Press plc and IMD PLC Martina is also Treasurer of the Marketing Group of Great Britain, Chair of the Radio Advertising Bureau, a Trustee of the Ahoy Centre and a Governor at Woodbridge School.

Bill Grimsey
Non-Executive Director, Age 56
Joined the Group Board on 9 October 2006 Member of the Audit, Remuneration and Nomination Committees Bill has held a number of senior positions across the retail sector over the past 20 years, including Chief Executive of The Big Food Group and Wickes Plc. Bill is currently Chief Executive of Focus DIY Limited He does not hold any other Non-Executive positions

Kevin Dady, Robert Coyle

Peter Cawdron, Eric Walters

Paul Pindar, Martina King

Divisional Executive Board

David Rigby
Age 47
David joined Capita in 1994, initially as a Director in the Property Consultancy business and has headed up a number of different businesses in the Group At the end of 1999, he was appointed Managing Director of the Property Consultancy Division, until being promoted to the Divisional Executive Board in July 2002 David has had responsibility for the Group's Life & Pensions business since Capita's entry into the market in August 2002

Peter Kelly
Age 59
Moved to Capita in February 1994 from Cap Gemini UK (formerly Hoskyns) Joined as Managing Director of our local government software business until his appointment as head of our Software Services Division In 2000 he was promoted to the Divisional Executive Board and has had responsibility for a number of divisions He currently heads up the ICT & Advisory Services Division and is responsible for the Group's internal IT

Maggi Bell
Age 52
Moved to Capita in January 1999 from Manpower where she was UK Operations Director She ran Capita's recruitment businesses until she was promoted to the Divisional Executive Board to lead the Business Services Division in June 2001 In 2002, she moved to head the Corporate Services Division, with overall responsibility for business development activity across the Group Since January 2005, she has been head of the Group Sales & Marketing Division

Kevin Dady
Age 43
Appointed to the Divisional Executive Board on 1 August 2006 with responsibility for the Professional Services Division, which includes all Capita's software and local government businesses as well as our strategic children's services offering Kevin joined Capita in 1996, after working in local government for 12 years In 2000, he was appointed Managing Director of the Group's local government software business

Robert Coyle
Age 42
Appointed to the Divisional Executive Board on 1 August 2006 with responsibility for the Financial Services Division He joined Capita in August 2000 from PwC where he was a director in their insolvency practice Initially he was Finance Director and then head of our financial services businesses He is a chartered accountant.

Corporate governance

The Group continues to be committed to the principles of corporate governance contained in the Combined Code (the Code) for which the Board is accountable.

The Group has complied throughout the year with the provisions of Section 1 of the Combined Code except in respect of the independence of the Board

Independence of the Board (A.3 2) – Following the appointment of Eric Walters (a Non-Executive Director of The Capita Group Plc since January 2001) as Non-Executive Chairman on 1 August 2006, the Board, excluding the Chairman, consists of four Executive and three Non-Executive Directors and as such does not fully comply with the Code regarding the balance of the Board However, the Board believes that the current composition is in line with the principles of the Code as it is led by a Non-Executive Chairman and its composition remains suitable for the nature and size of the Group We believe that the collective skills, experience and approach to running the business are appropriate for driving the Group forward and achieving the Group's goals. We constantly review the composition of the Board to ensure that it continues to meet the needs of the Group

The Board's Non-Executive Directors, Peter Cawdron, Eric Walters, Martina King and Bill Grimsey are regarded as independent and free from any business or other relationship that could materially interfere with their judgement.

The Code states that after nine years on the Board, non-executive directors cease to be independent. Although he has served for over 10 years, the Board is satisfied that Peter Cawdron remains independent with strong financial skills and a good knowledge of the business and its sectors and continues to enhance the overall balance of the Board Peter Cawdron will retire as Senior Non-Executive Director on 30 September 2008

Board responsibilities and effectiveness
The Board is collectively responsible to shareholders for setting the direction of the business and monitoring the Group's ongoing affairs It is also responsible for ensuring an effective internal control environment that identifies and manages appropriately the risks associated with the business as set out on pages 16, 20–21 and 54

The Board demonstrates its commitment to the strategic direction and control of the Group by scheduling a series of meetings in the year It can meet as necessary outside of this schedule to consider any urgent matters that may arise It sets the strategic objectives of the Group, ensuring sufficient financial and human resources are in place to meet those aims The Board sets the Group's values and standards and ensures that its obligations to clients, employees, suppliers, the community and other key stakeholders are understood and met. The Board has a formal schedule of matters that can only be decided by the Board including the Group's business strategy, annual budget, annual and half-yearly financial results, dividends and major corporate activities. The Board also considers regular reports from the Chief Executive, Group Finance Director and Joint Chief Operating Officers. The Board is provided with complete, timely and relevant information to ensure that informed judgements are made in pursuit of the Group's objectives.

The Board also reviews the performance of management in meeting business objectives, plans the succession of key executives, and determines appropriate remuneration levels through the Remuneration Committee, a committee of the Board. The operational management of the Group is delegated to the Divisional Executive Board, which is comprised of the Group Executive Directors and five Divisional Executive Directors and meets on a monthly basis.

The Non-Executive Directors have a particular responsibility to challenge constructively and independently the business development plans that are proposed by executive management and monitor the performance of the management teams in the delivery of agreed business objectives and targets The Non-Executive Chairman encourages and engages in an open dialogue with Non-Executive Directors in particular, who are at liberty to meet with him as a group or individually as they feel fit, without the presence of Executive Directors Directors and officer's liability insurance is maintained The Non-Executive Directors meet once a year without the Executive Directors present.

Board composition
The Directors acknowledge the need to segregate the responsibility for operating the Board from the management of the underlying business Consequently, the roles of Non-Executive Chairman (Eric Walters) and Chief Executive (Paul Pindar) are separated

The Board consists of the Non-Executive Chairman, Eric Walters, three further independent Non-Executive Directors, Peter Cawdron (Senior Non-Executive Director), Martina King and Bill Grimsey; and four Executive Directors, Paul Pindar, Chief Executive, Gordon Hurst, Group Finance Director and Company Secretary and Paddy Doyle and Simon Pilling, Joint Chief Operating Officers.

Peter Cawdron will retire as Non-Executive Director on 30 September 2008 and as part of the Board's orderly succession planning, Martin Bolland was appointed as Non-Executive Director on 1 March 2008 Martin Bolland was appointed following a formal and rigorous recruitment process When considering Mr Bolland's appointment, the Nomination Committee met, with Eric Walters chairing the proceedings, and Peter Cawdron took no part in the process. One-on-one meetings were also undertaken with the Group Finance Director and Chief Executive.

The Senior Non-Executive Director is available, as necessary, to lead meetings of the Non-Executive Directors without the Executive Directors and/or the Chairman being present and meets with shareholders to understand any concerns. Biographies of the Directors can be found on page 50

Director induction and professional development
On joining the Board, all Directors receive an appropriate induction programme involving appropriate documentation, meetings and visits to Capita businesses with other Directors, attendance at Divisional Board meetings and discussions with advisers and senior management from across the Group

All Board members have access to independent advice on any matters relating to their responsibilities as Directors and as members of the various committees of the Board, at the Group's expense The Company Secretary, Gordon Hurst, who is also Group Finance Director, is available to all Directors and he is responsible for ensuring that all Group Board procedures are complied with.

The decision to combine the roles of Group Finance Director and Company Secretary was taken when Capita was a smaller entity and as the Group has evolved this approach has been regularly reviewed and has proven to work well. Capita owns a company secretarial business that provides services to numerous private and quoted companies and a team from this business directly supports Gordon Hurst in his role as Company Secretary

During the year, the Directors received appropriate ongoing briefings and information, including updates on governance and regulatory issues, to enable them to perform their roles. They also attended external courses where appropriate.

Board performance evaluation
A full Board performance evaluation was conducted in 2006 and during the year to 31 December 2007, the Board continued to review outcomes of that evaluation, which were positive A full Board appraisal will be conducted in the year to 31 December 2008

The performance of individual Executive Directors is appraised annually by the Chief Executive, to whom they report. The performance of the Chairman is reviewed by the Non-Executive Directors, led by Peter Cawdron, taking into account the views of the Executive Directors

The performance review of the Chief Executive is conducted by the Non-Executive Chairman, taking into account the views of other Directors Non-Executive Directors' performance is reviewed by the Non-Executive Chairman, taking into account the views of other Directors

Appointment, re-appointment and removal of Directors
Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Acts

All Directors are subject to election at the first Annual General Meeting after their appointment and to re-election at intervals of no more than three years in accordance with the Combined Code and the Company's Articles of Association

No person other than a Director retiring at the meeting shall be appointed or re-appointed a Director of the Company at any general meeting unless he/she is recommended by the Directors

No person other than a Director retiring at a general meeting as set out above shall be appointed or re-appointed unless between seven and 35 days' notice, executed by a member qualified to vote on the appointment or re-appointment, has been given to the Company of the intention to propose that person for appointment or re-appointment, together with notice executed by that person of his/her willingness to be appointed or re-appointed

The Non-Executive Chairman and, where appropriate, the Non-Executive Directors have, following the evaluation process described above, considered the performance of Paddy Doyle and Martina King, who are subject to re-election at the 2008 Annual General Meeting and is satisfied that they continue to be effective and demonstrate a clear commitment to the role

Nomination Committee
The Nomination Committee comprised Eric Walters (Chairman), Peter Cawdron, Martina King and Bill Grimsey throughout the year The Committee reports to the Board and its duty is to seek suitably skilled and experienced candidates to be Non-Executive Directors and ensures plans are in place for orderly succession for appointments to the Board

When considering the constitution of the Board, the Nomination Committee carries out a rigorous review, taking into account the need for progressive refreshing of the Board Core competencies and attributes required to fill the roles are set out and independent external search consultants engaged, where appropriate, to identify potential candidates. The Chairman of the Company will not take part in any discussions regarding the consideration of the appointment of a new Chairman

Audit Committee
The Audit Committee comprised the Non-Executive Directors throughout the year and was chaired by Peter Cawdron, who has significant and recent relevant financial experience Audit Committee meetings are attended, by invitation, by the Non-Executive Chairman, Chief Executive, Group Finance Director, Group Compliance Director, Group Risk and Business Assurance Director and by representatives of the external auditors

At their meetings, the Committee reviewed a wide range of financial reporting and related matters including the half year and annual accounts prior to their submission to the Board The Committee focused in particular on critical accounting policies and practices adopted by the Group and any significant areas of judgement that materially impact reported results. It also monitored the internal controls that are operated by management to ensure the integrity of information reported to shareholders

The Committee provides a forum for reporting by the Group's external auditors, and it advised the Board on the appointment, independence and objectivity of the external auditors and on their remuneration both for statutory audit and non-audit work. It also discussed the nature, scope and timing of the statutory audit with the external auditors The Audit Committee annually performs an independent assessment of the suitability and performance of the external auditors in making its recommendation to the Board for their re-appointment

The Committee has responsibility for reviewing the annual internal audit programme and for ensuring that the business risk management and internal audit functions are adequately sponsored and resourced It also monitored the resourcing levels and performance of the Group's compliance function

At the meeting to review the 2007 Annual Report and Accounts, the Committee considered the level of non-audit services being provided by the Group's external auditors in order to satisfy itself that the objectivity and independence of the external auditors was safeguarded There is a policy in place to monitor and approve the use of the auditors for non-audit services. Details of audit and non-audit fees are given in note 6 on page 77 The lead audit partner is rotated on a five yearly basis

Remuneration Committee
Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 57–62

The terms of reference of the Nomination, Remuneration and Audit Committees were updated during the year to reflect changes in best practice The terms of reference are displayed in the investor centre at **www capita.co uk/investors**

Board and committee members, frequency of meetings and attendance
During 2007 the Board met nine times, excluding ad hoc meetings solely to deal with procedural matters. The Nomination Committee and the Remuneration Committee each met two and three times during the year, respectively The Audit Committee met four times during the year Attendance is recorded in the table below

	Board meetings	Nomination Committee meetings	Remuneration Committee meetings	Audit Committee meetings
Scheduled meetings	9	2	3	4
Eric Walters	8	2	3	–
Paul Pindar	8	–	–	–
Gordon Hurst	9	–	–	–
Paddy Doyle	7	–	–	–
Simon Pilling	8	–	–	–
Peter Cawdron	9	2	3	4
Martina King	9	2	3	4
Bill Grimsey	9	2	3	4

Any Directors' non-attendance at Board Meetings or meetings of the Audit, Remuneration or Nomination Committees was due to illness or an absence previously agreed with the Chairman of the Board, the Chief Executive or the Chairman of the relevant committee

Dialogue with institutional shareholders
The Board encourages and seeks to build up a mutual understanding of objectives between the Group and its institutional shareholders As part of this process, the Non-Executive Chairman, Chief Executive, Group Finance Director and Joint Chief Operating Officers make regular presentations and meet with institutional shareholders to discuss any issues of concern, to obtain feedback and to consider Corporate Governance issues All the Non-Executive Directors are available to meet with shareholders to understand their views more fully The Non-Executive Chairman and the Senior Non-Executive Director are personally available to the significant shareholders in the Group

The Corporate Communications team has effective day-to-day responsibility for managing shareholder communications and always acts in close consultation with the Board A Disclosure Committee consisting of the Corporate Communications Director, Chief Executive and Group Finance Director ensure all appropriate communications are made to the London Stock Exchange and shareholders Shareholders can also access up-to-date information through the investor centre section of the Group's website A telephone helpline, 0871 664 0300, provides a contact point directly to the Group's registrars.

All members of the Board, including Non-Executive Directors, receive a report on any significant discussions with shareholders and the feedback that follows the annual and half-yearly presentations to investment analysts and shareholders is also circulated All brokers' reports and analysts' briefings are circulated to Directors

The Board encourages shareholders to attend its Annual General Meeting Directors, including the chairmen of the various committees, are present to answer any questions The Group uses the Annual General Meeting to communicate with private investors and encourages their participation

Social and environmental responsibility
Details of how the Group manages its social and environmental responsibilities can be found on pages 30–33

Corporate governance

Internal control

The Group Board is responsible for the Group's system of internal control and for regularly reviewing its effectiveness Procedures have been designed for, inter alia, the safeguarding of assets against unauthorised use or disposition, maintaining proper accounting records and the reliability of financial information used within the business or for publication. Such a system is 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 There is an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board The Group's key internal control procedures include the following

- The Divisional Executive Board has responsibility to set, communicate and monitor the application of policies, procedures and standards in areas including operations, finance, legal, commercial and regulatory compliance, human resources and health and safety, information security and property management and corporate social responsibility and the environment
- Authority to operate the individual businesses comprising the Divisions that make up the Group is delegated to their respective Managing Directors, within limits set by the Divisional Executive Board under powers delegated by the Board The appointment of executives to the most senior positions within the Group, other than Board appointments, requires the approval of the Divisional Executive Board It establishes key operational, functional and financial reporting standards for application across the whole Group These are supplemented by operating standards set by local management teams, as required for the type of business and geographical location of each subsidiary and business unit
- Comprehensive annual financial plans are prepared at the individual business unit level and summarised at the Divisional and Group level. Financial plans are reviewed and approved by both the Divisional Executive Board and the Board Capital expenditure is subject to rigorous budgetary control beyond specified levels and detailed written proposals have to be submitted to the Board Expenditure on acquisitions is the subject of appropriate consideration, review and approval by the Board
- Results are monitored routinely by means of comprehensive management accounts and actual progress against plan is challenged directly by executive members of the Board on a Group-wide basis at the business unit level each month
- A framework is in place to identify, assess and mitigate the major business risks, including credit, liquidity, operations, reputation, information security, regulatory and fraud The framework also includes specific provision for risk-based due diligence in respect of business acquisitions and new customer contracts Exposure to business risks is monitored as an integral part of the monthly challenge to business results discussed above and by the Audit Committee
- The Group risk framework is supplemented in certain of the Group's businesses, including all financial services related business streams, by a number of formally constituted local boards, which in turn are underpinned by dedicated risk committees These committees provide an appropriate means to routinely monitor the risk profile of these businesses, including regulatory risks, and for proposed mitigating actions to be challenged and tracked
- The Group risk management framework is monitored and developed as required by the Group risk and business assurance function, in conjunction with the Group compliance function, to ensure that it remains appropriate to business requirements and consistent with best practice
- The Group risk and business assurance function reports to the Group Finance Director and independently to the Audit Committee In addition to independently facilitating the Group's risk management framework, it delivers a risk-based internal audit programme, to provide assurance on the effectiveness of the internal control structures operating across the business The annual audit programme is focused on areas of greatest risk to the Group, as determined by the Group risk framework, and the independent view of those risks is taken by the Group risk and business assurance function
- In addition, regulatory risks and compliance matters are overseen by the Group compliance function reporting through the Group Finance Director and independently to the Audit Committee The Group compliance team, in conjunction with dedicated compliance teams within the relevant businesses, independently monitor regulatory compliance by way of risk-based work programmes and support operations in identifying and mitigating regulatory risks as an integral part of the Group risk framework
- Both the Group compliance function and the Group risk and business assurance function routinely appraise the Group's senior management and the Audit Committee of their work programmes and findings

The Board keeps under review the effectiveness of this system of internal control. The key mechanisms used by the Board to achieve this include regular reports from the Divisional Executive Board, periodic updates from the Audit Committee based on its review of risk management, business assurance and compliance reports by the relevant Group functions, discussions with and reports from the external auditors and other advisers and periodic reports from relevant regulators

Based on the above, the Board has concluded that it is satisfied with the process of monitoring the effectiveness of internal controls and compliance with the Internal Control Guidance for Directors on the Combined Code issued by the Institute of Chartered Accountants in England and Wales and in the revised Turnbull Guidance (2005) The Board and the Audit Committee have reviewed the effectiveness of the internal control system, including financial, operational and compliance controls and risk management in accordance with the Code for the period from 1 January 2007 to the date of approval of this Annual Report and Accounts No significant failings or weaknesses were identified during this review; however had there been, the Board confirms that necessary actions would have been taken to remedy them

Additional Information

Group activities

The Capita Group Plc and its subsidiaries (the Group) is a leading UK provider of professional support services and business process outsourcing solutions to organisations across the public and private sectors. The Group's nine chosen markets are central government, local government, education, health, transport, life and pensions, insurance, financial services and other corporate organisations.

On behalf of its clients, the Group aims to improve service quality, reduce costs of delivery and enable them to transform the way that they deliver services to their customers The services that the Group provides are essential to the smooth running and success of its clients' operations. The Group designs, successfully implements and manages tailored service solutions, ranging across administration, information technology, financial, human resources, property and customer service functions The Group maintains leading positions in its markets due to its ability to draw on its wide base of professional services, detailed market knowledge and extensive business process transformation and change management skills. The Group's principal activities are managed through seven operating divisions comprising HR Solutions & Property Consultancy, Insurance & Specialist Services, Financial Services, ICT & Advisory Services, Life & Pensions, Professional Services and Integrated Services, plus the Group Sales and Marketing Division Group support services report direct to Group Executive Directors A review of the development of the Group and its business activities during the year is contained in the Business review on pages 02–48

Profits and dividends

The Group profit before taxation and after amortisation amounted to £228 7m (2006 £193 2m) The Directors recommend a final dividend of 8 0p per share (2006 6.3p per share) to be paid on 9 May 2008 to ordinary shareholders on the Register on 28 March 2008 This gives a total dividend for the year of 12 0p per share (2006 9 0p per share) Additionally, a special dividend of 25 0p per share was paid in October 2007

Directors

The Directors of the Company currently in office are listed on page 50 Paddy Doyle and Martina King will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election Non-Executive Chairman Eric Walters' other significant commitments are a partnership in Englefield Capital, a private equity firm, and non-executive directorships of a number of private companies None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings other than their contracts of employment and no Director has a service contract exceeding one year

Voting rights and share capital

On 28 February 2008 the Company had received notifications that the following were interested in 3% or more of the voting rights attached to the Company's ordinary share capital

	Percentage of total shares	Nature of holding
Baillie Gifford & Co	4 94	Indirect
FMR LLC	4 78	Indirect
Fidelity International Limited	3 93	Indirect
Lloyds TSB Group Plc	3 93	Indirect
Legal & General Group Plc	3.58	Direct

At the date of this report, 609 3m ordinary shares of 2⅙p each have been issued and are fully paid up and are quoted on the London Stock Exchange During the year ended 31 December 2007, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 18 1m new ordinary shares A further 0 3m new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in May 2007 and again at the Extraordinary General Meeting in September 2007 During the year the Company acquired 6 6m (2006 52 9m) ordinary shares, representing 1% of the issued share capital (see note 26 on page 93) During the year 6 55m shares, representing 1% of the issued share capital, were cancelled and the remaining 41,163 share are held in treasury

The Company's share capital was consolidated on 17 September 2007, with every 31 existing ordinary shares replaced with 30 new ordinary shares. The consolidation resulted in a reduction in the number of shares in issue by 19 96m shares

Rights and restrictions attaching to shares

Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in the payment of dividends pro rata to their holding The Board may propose and pay interim dividend and recommend a final dividend, in respect of any accounting period out of the profits available for distribution under English law A final dividend may be declared by the shareholders in the general meeting by ordinary resolution, but no dividend may be declared in excess of the amount recommended by the Board

At any general meeting a resolution put to vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the results of the show of the hands or on the withdrawal of any other demand for a poll) a poll is properly demanded On a show of hands every member who is present in person or by proxy at a general meeting of the Company shall have one vote On a poll every member who is present in person or by proxy shall have one vote for every share of which they are the holder

No person holds securities in the Company carrying special rights with regard to control of the Company The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Restrictions on transfer of shares

The Company's Articles of Association allow Directors to, in their absolute discretion refuse to register the transfer of a share in certificated form which is not fully paid They may also refuse to register a transfer of a share in certificated form unless the instrumented form of transfer is lodged, duly stamped, at the registered office of the Company or at such other place as the Directors may appoint and (except in the case of a transfer by a recognised person where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer

The Directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or is excepted from the requirement) under the Uncertificated Securities Regulations to register the transfer; and they may refuse to register any such transfer in favour of more than four transferees

Going concern

The Board of Directors has a reasonable expectation that the Group and the Company 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

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 retrained for other positions in the Group

Employee involvement

The Group is committed to involving all employees in the performance and development of the Group Its approach to employee development offers continual challenges in the job, learning opportunities and personal development The Group supports employees through a comprehensive range of key business and management skills courses and an annual management development programme

The Group encourages all its employees to participate fully in the business through open dialogue Employees receive news of the Group through Recap, the Group's newsletter, frequent email notices, internal notice board statements, and Capita Online, a regular communication reviewing the performance of the Group from the perspective of the Directors. These communication initiatives enable employees to share information within and between business units and employees are encouraged to contribute news, views and feedback The Group maintains a strong communications network and employees are encouraged, through its open door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of 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 The share option schemes have been a key factor in attracting, retaining and motivating senior employees across the Group

The Capita Sharesave Scheme, an employee Save As You Earn Scheme, and the Capita Share Ownership Plan, a share incentive plan, are both firmly established and are designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group 20% of the Group's eligible employees have share options or own Capita shares.

In keeping with its belief that employees are the Group's most valuable asset, the Group operates an annual employee awards scheme, celebrating the core values that embody the organisation and rewarding employees for service excellence, effective teamwork, service to the community and innovation

Further information on our employee initiatives can be found on pages 27–29

Payment of suppliers

The Company aims to pay suppliers in accordance with the suppliers' contract terms. The Company had an average of 42 days' purchases (2006 43 days' purchases) outstanding in trade creditors

Charitable and political donations

During the year charitable donations amounted to £0 5m (2006 £0 5m) No political contributions were made Further details of the Group's charitable donations and work within the community can be found on page 32

Financial instruments

The Group's financial instruments primarily comprise bonds, unsecured loan notes, bank loans, finance leases and overdrafts. The principal purpose of these is to raise funds for the Group's operations In addition various other financial instruments such as trade creditors and trade debtors arise directly from its operations From time to time, the Group also enters into derivative transactions, primarily interest rate swaps, currency swaps and forward exchange contracts, the purpose of which is to manage interest risk and currency risk.

The main financial risks, to which the Group has exposure, are interest rate risk, liquidity risk, credit risk and foreign currency risk

The Group borrows in selected currencies at fixed and floating rates of interest and makes use of interest rate swaps to generate the desired interest profile and to manage its exposure to interest rate fluctuations

Corporate governance

In respect of liquidity risk, the Group aims to maintain a balance between continuity of funding and flexibility through the use of bonds, bank loans, unsecured loan notes, finance leases and overdrafts.

In respect of credit risk, the Group trades only with recognised, creditworthy third parties It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments

The Group has exposure to foreign currency risk where it has investments in overseas operations which are affected by foreign exchange movements The Group is not generally exposed to significant foreign currency risk except in respect of its overseas operations in India which generate exposure to movements in the INR/GBP exchange rates The Group seeks to mitigate the effect of this exposure by executing forward currency contracts to fix the GBP cost of highly probable forecast transactions denominated in INR These forward currency contracts are designated as cash flow hedges and it is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged items in order to maximise hedge effectiveness

Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies (Audit, Investigations and Community Enterprise) Act 2004 (which amends the Companies Act 1985), companies are under an obligation to disclose any indemnities which are in force in favour of their directors The current Articles of Association of the Company contain an indemnity in favour of the Directors of the Company which indemnifies them in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the Annual General Meeting from 15 minutes before the meeting until it ends.

Auditors

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

The Company is committed to ensuring appropriate independence in its relationship with external auditors and the key safeguards are

- The Group Risk and Business Assurance Director monitors the independence of the auditor as part of the Group's assessment of auditor effectiveness and reports to the Audit Committee
- The Audit Committee routinely benchmarks the level of the external Audit fee against other comparable companies both within and without its sector, to ensure ongoing objectivity in the audit process
- The Group Finance Director monitors the level and nature of non-audit fees accruing to the external auditor, and specific assignments are discussed in advance with the external auditor and flagged for the approval of the Audit Committee as appropriate and in accordance with the Company's policy on the provision of non-audit services by auditors The Audit Committee reviews, in aggregate, non-audit fees of this nature on an annual basis and considers implications for the objectivity and independence of the relationship with the external auditor

Ensuring conflicts of interest are avoided is a fundamental criterion in the selection of any third party auditor for assignments with which the Group is involved Such conflicts may arise across public or private sector customers and key supplier relationships, for example, and are a key determinant in the award process for external audit assignments.

Powers of Directors

The business of the Company shall be managed by the Directors who are subject to the provisions of the Companies Act, the Memorandum and the Articles of Association of the Company and to any directions given by special resolution, including the Company's power to repurchase its own shares

The Company's Articles of Association may only be amended by a special resolution of the Company's shareholders.

Change of control

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time

The Group has a number of borrowing facilities provided by various banks and other financial institutions The bonds issued by the Group contain a change of control provision which requires prepayment of the full facility amount in the event that a change of control occurs and the Group's credit rating falls below investment grade The Group currently has £461 1m of bonds in issue

There are no other significant contracts in place that would take effect, alter or terminate on the change of control of the Company

Statement of Directors' responsibilities in respect of the accounts and auditors

Company law requires the Directors to prepare accounts for each financial year that 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.

To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware

Each of the Directors has taken all steps that a Director might reasonably be expected to have taken to be aware of all relevant audit information and to establish that the Company's auditors are aware of that information

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 anytime 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.

To the best of each Director's knowledge, the financial statements contained within this Annual Report and Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole, and the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face. Details of the principal risks and uncertainties can be found on page 21

Annual General Meeting

The 2008 Annual General Meeting of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB, on 6 May 2008 At the AGM a number of resolutions will be proposed The resolutions are set out in the Notice of Meeting, which was sent to shareholders with the Annual Report and Accounts and includes notes explaining the business to be transacted In May 2007, shareholders granted authority for the Company to purchase up to 59 88m ordinary shares This authority was renewed at the EGM in September 2007 and will expire at the conclusion of the 2008 Annual General Meeting A resolution to renew this authority will be put to shareholders at that meeting

Directors' remuneration report

As required by Section 234B of the Companies Act 1985, the Directors present the Report on Directors' Remuneration for the year ended 31 December 2007 In accordance with the requirements the report provides the disclosure in two parts information that is not subject to audit and information that is subject to audit

Information that is not subject to audit
The Capita Group Remuneration Committee (the Committee) is a sub-committee of the Group Board with terms of reference agreed with the Group Board Its purpose is to determine the terms of employment and the remuneration of the Executive Directors The terms of reference of the Committee are available on Capita's website (**www capita co uk**) and on request.

The Committee was made up during the year of the following independent Non-Executive Directors. Martina King (Chairman), Peter Cawdron and Bill Grimsey The Committee met three times during the year and all members attended each meeting

The Committee consults the Chief Executive regarding proposals for remuneration of the Executive Directors and other senior executives, except when issues relating to his own remuneration are discussed During the year, KPMG (UK) LLP (KPMG) acted as adviser to the Committee and they acted in this capacity until November 2007 KPMG has also provided tax advisory services to subsidiaries of the Company during the year under review No other person or entity has provided material assistance to the Committee during the year In November 2007, PricewaterhouseCoopers LLP (PwC) replaced KPMG as the Company's remuneration adviser to provide independent advice on executive remuneration and the structure of share schemes

The Company has complied with the provisions set out in Section B of the Combined Code annexed to the Listing Rules of the Financial Services Authority as relating to Directors' remuneration

Directors' remuneration
a) Overall policy
The Committee's overall policy is to provide a remuneration structure with a strong performance-related element which it feels is justified by the nature of the Group's activities, its growth and profit record and its developing characteristics.

The overall package is weighted towards share-based incentives which the Committee strongly believes links the interests of the Executive Directors with those of shareholders in respect of shareholder value The Committee is satisfied that the remuneration policy is appropriate, particularly with regard to total executive remuneration and Group performance The Committee plans to continue to pursue this approach in its future remuneration policy Consistent with this principle, approximately half of an executive's target total remuneration is performance-linked and weighted to the long term This percentage would increase in the case of performance above target.

The Committee has engaged its independent advisers, PwC, to conduct a strategic review of current executive remuneration policy and package The Committee is currently considering the findings of the review and will consult with the Company's largest shareholders prior to making any changes to the current remuneration package

The remuneration package for the Executive Directors consists of salary, annual bonus, long term incentives, pension and other benefits

The chart below shows the balance between the value of the fixed and variable compensation received by the Executive Directors for the period from 1 January 2007 to 31 December 2007

Percentage of total remuneration

The chart below compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All Share Index and the FTSE 350 Support Services Index over the five years starting 1 January 2003 and ending 31 December 2007 assuming that all dividend income is reinvested. The Committee is of the opinion that this comparison provides a clear picture of the performance of the Group relative to both a wide range of companies in the United Kingdom and also a specific group of companies within the same sector

Comparison of total shareholder returns
Capita vs FTSE All Share Index and FTSE 350 Support Services Index, Value of investment of £100 on 1 January 2003

A £100 investment in Capita shares on 1 January 2003 would be worth £305 at 31 December 2007 compared to £205 for an investment in the FTSE All Share Index and £163 for an investment in the FTSE 350 Support Services Index.

Directors' remuneration report

b) Basic salary and benefits
The Committee regularly commissions independent reviews of the salaries and benefits of the Executive Directors. The policy adopted by the Committee requires that basic salaries and benefits be below those provided to comparable roles in comparable companies to enable the provision of a higher performance-related element of remuneration

This low basic salary policy allows the Directors to provide a lead in terms of keeping fixed remuneration costs low across the Group as a whole and is reflective of the Group's remuneration policy in general The continued success of the Group has enabled it to provide the benefits of a highly geared reward structure which delivers a competitive total remuneration package.

c) Annual Bonus Scheme
The value of the annual bonus is determined at the start of each financial year and payment triggered at a predetermined Group profit before tax target. The Committee takes the view that this performance condition is relevant, challenging and designed to drive business enhancement.

The maximum annual bonus potential for Executive Directors is 140% of salary Half of the annual bonus entitlement will be paid in cash and the remainder will be compulsorily deferred on a gross-basis into Capita shares (Deferred Shares) This reflects the Committee's policy of providing a significant proportion of performance-related remuneration whilst maintaining low basic salaries The annual bonus is not pensionable

For 2007 this resulted in a cash element payable of 70% of salary to all Executive Directors with the remainder of the performance related bonus being awarded in Deferred Shares. The number of shares awarded will be determined within 42 days of 29 February 2008, the date of the announcement of the Group's results for 2007

d) Deferred Annual Bonus Plan (DAB)
The Deferred Annual Bonus Plan was approved and adopted at the AGM on 28 April 2005 The DAB is comprised of Deferred Shares, which form part of the Annual Bonus Scheme, and Matching Shares

In February 2007, an aggregate of 112,271 Deferred Shares were awarded to Executive Directors at a price of £6 545, being the market price on the day, as detailed on page 61

The Deferred Annual Bonus Plan operates as follows

The value of Deferred Shares is determined by the entitlement under the Annual Bonus Scheme half of the bonus entitlement is paid in cash and the remainder is compulsorily deferred, on a gross basis, into Deferred Shares. The Deferred Shares are held for a period of three years from the date of award during which they will not be forfeitable, except in the case of dismissal for gross misconduct

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants are eligible to receive up to 1 5 Matching Shares for every Deferred Share Matching Shares vest after the three year holding period to the extent to which performance criteria have been met. During the year an aggregate of 168,405 Matching Shares were awarded to Executive Directors as detailed on page 61 and subject to the following performance conditions

The Committee has decided that the performance condition that will apply to the Matching Shares is earnings per share (EPS) growth against the UK Retail Price Index (RPI) The Committee believes that long term EPS growth is the most appropriate performance condition for the Company as it is a key indicator of shareholder value creation The EPS based performance conditions are as follows

Matching shares %

33% 100%

<33.3% = 0 Proportional vesting

RPI+6 RPI+16

Increase in EPS over three years

The performance condition attached to the awards made under the bonus scheme may be amended by the Committee from time to time, subject to the new performance condition being no less demanding than the original condition

The Committee believes that this plan focuses participants on delivering strong year-on-year annual performance, which will in turn drive long term shareholder value creation Executive Directors and Divisional Executive Directors (pages 50–51) are eligible to participate in the DAB No further awards are made to participants under any other long term incentive plan

e) Long Term Indexed Share Appreciation Scheme (LTISAS)
The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with two equal tranches of 600,000 options The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006 The exercise price of the option was adjusted in line with the movement in the FTSE All Share Index from the date of grant to 25 November 2007 The adjusted exercise prices were £3 48 for the 2002 award and £4 74 for the 2004 award This feature ensured that participants only gained if the share price out-performed the index.

Options became exercisable, if over the performance period, the Company's EPS exceeded certain targets as follows

LTISAS %

25% 100%

<25%=0 Proportional vesting

RPI+8 RPI+12

Increase in EPS over three years

As growth in the Company's EPS over the three year period to 31 December 2006 exceeded RPI growth by 17 6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards will be made under this plan.

f) Share option schemes
The Group has two share option schemes. the 1997 Executive Share Option Scheme (including both HMRC approved and unapproved options) is a discretionary scheme for senior managers, in which the Executive Directors and Divisional Executive Directors no longer participate, and the Capita Sharesave Scheme which is open to all Capita's employees.

Options granted under the 1997 Executive Share Option Scheme become exercisable if the growth in the Company's EPS exceeds growth in RPI by 8% over the three year period from the date of grant.

Following shareholder approval at the 2006 AGM, the 1997 Executive Share Option Scheme, due to expire early in 2007, was renewed for a period of 10 years.

g) Capita Share Ownership Plan (CSOP)
The CSOP is open to all employees of the Company under certain eligibility criteria, including Executive Directors Under the plan, eligible employees may invest up to £125 per month in the Company's shares and the Company matches these at a ratio of one Matching Share for every 10 Participant Shares.

h) Satisfaction of Options
When satisfying awards made under its share plans and long term incentive plans, the Company will use newly issued, treasury shares or purchased shares as appropriate

i) Non-Executive Directors
Non-Executive Directors' fees reflect the time, commitment and responsibilities of the role They are reviewed annually and determined by the Executive Directors.

j) Service contracts
The service contracts for Group Board Executive Directors are for an indefinite period and provide for a one year notice period They do not include provisions for predetermined compensation on termination that exceed one year's salary and benefits. There are no arrangements in place between the Company and its Directors that provide for compensation for loss of office following a takeover bid

All Directors are appointed for an indefinite period but are subject to re-election at the Annual General Meeting every three years.

Details of the contracts are set out below:

Executive Directors	Date of contract	Notice period
Paul Pindar	17.12.2007	12 months
Paddy Doyle	17.12.2007	12 months
Gordon Hurst	17.12.2007	12 months
Simon Pilling	17.12.2007	12 months

Non-Executive Directors	Date of joining Board
Peter Cawdron	01.09.1997
Eric Walters	01.01.2001
Martina King	01.01.2005
Bill Grimsey	09.10.2006

Directors' interests
The interests (all beneficial) of the Directors in the ordinary shares of the company were as follows.

	31 December 2007 or date of appointment if later ordinary shares of 2¹/₁₅p	31 December 2006 or date of appointment if later ordinary shares of 2¹/₁₅p
Eric Walters	50,230	49,326
Paul Pindar	1,451,612	1,850,000
Paddy Doyle	26,497	26,979
Gordon Hurst	10,181	28,221
Simon Pilling	–	–
Peter Cawdron	23,225	24,000
Martina King	–	–
Bill Grimsey	12,209	12,616

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

Information subject to audit
a) Directors' remuneration
The remuneration of the Directors, excluding gains made on the exercise of options, is made up as follows

	2007 £000s	2006 £000s
Basic salaries	1,038	1,151
Compensation	–	356
Benefits	76	109
Annual Bonus	1,603	1,615
Pension contributions to the Group's defined contribution scheme	53	65
Pension contributions to external defined contribution pension schemes	130	122
Fees	220	137
Total	3,120	3,555

Directors' remuneration report

Details of Group Board Directors' remuneration are as follows.

	Salary and fees £	Benefits £	Performance related bonus[2] £	Total 2007 £	Total 2006 £	Gain on exercise of options 2007 £	Gain on exercise of options 2006 £	Pension 2007[3] £	Pension 2006 £
Paul Pindar	355,000	28,210	497,000	880,210	836,675	–	1,160,880	18,518	16,869
Gordon Hurst	224,000	17,079	364,000	605,079	563,139	4,151,912	–	53,703	45,668
Paddy Doyle	229,103	20,479	392,000	641,582	612,548	2,782,700	–	71,502	77,871
Simon Pilling	230,000	10,022	350,000	590,022	475,451	3,562,440	266,076	38,810	18,912
Eric Walters[1]	100,000	–	–	100,000	60,333	–	–	–	–
Peter Cawdron[1]	40,000	–	–	40,000	34,000	–	–	–	–
Martina King[1]	40,000	–	–	40,000	34,000	–	–	–	–
Bill Grimsey[1]	40,000	–	–	40,000	8,788	–	–	–	–
Rod Aldridge	–	–	–	–	742,939	–	–	–	28,177

[1] Non-Executive Directors.

[2] The sum disclosed above represents the total value of the performance related bonus payable in respect of the year ended 31 December 2007 50% will be paid in cash and the remainder will be settled through the issue of Deferred Shares as explained in d) on page 58

[3] In addition, by way of salary sacrifice, the base salaries of Gordon Hurst, Paddy Doyle and Simon Pilling have been reduced by £36,000 (2006 £36,000), £50,897 (2006 £50,897) and £20,000 (2006 £20,000) respectively and paid into separate defined contribution schemes

The benefits of Gordon Hurst, the highest paid Director, Paddy Doyle and Simon Pilling are in respect of private health insurance and the provision of a company car allowance The benefits of Paul Pindar are in respect of a company car and private health insurance

Paul Pindar was released by the Company to serve as a Non-Executive Director of Debenhams Plc with effect from 9 May 2006 He receives £50 000 per annum in fees from Debenhams Plc which he retains

b) Share option schemes

1997 Executive Share Option Scheme

The Directors' interests in the 1997 Executive Share Option Scheme are listed below

	Exercise price £	At 1 January 2007	Granted in the year	Exercised in the year[1]	At 31 December 2007	Exercisable between[2]
Paul Pindar	4 49	200,000	–	–	200,000	28 06 2004 to 28 06 2008
	4.36	100,000	–	–	100,000	22 05.2005 to 22 08 2009
Paddy Doyle	4 49	200,000	–	200,000	–	28 06 2004 to 28 06.2008
	4.36	100,000	–	100,000	–	22 05 2005 to 22 08 2009
Gordon Hurst	4 49	200,000	–	200,000	–	28 06 2004 to 28 06.2008
	4.36	100,000	–	100,000	–	22 05.2005 to 22 08 2009

[1] On 13 March 2007 and 22 March 2007 respectively, Gordon Hurst and Paddy Doyle exercised options as set out above selling all resulting shares The market price on the day of exercise was 652p (13 March 2007) and 652.5p (22 March 2007)

[2] Details of the performance conditions attached to options granted under the 1997 Scheme can be found on page 59 The information on page 59 is unaudited.

No options have been granted to Group Board Directors since 2002.

The market value of an ordinary share of the company at 31 December 2007 was 698p, and the high and low values for the year were 597 5p (5 January 2007) and 779p (8 August 2007) respectively

Capita Sharesave Scheme

The Directors' interests in the Capita Sharesave Scheme are listed below

	Exercise price £	At 1 January 2007	Granted in the year	Exercised in the year	At 31 December 2007	Exercisable between
Gordon Hurst	1 88[1]	8,430	–	–	8,430	3110.2008 to 30 04 2009
Paddy Doyle	7 88[2]	–	1,289	–	1,289	0111 2010 to 30 04 2011

[1] The exercise price quoted above was set at 80% of the market price at the date of grant

[2] The exercise price quoted above was set at 100% of the market price at the date of grant

There are no performance criteria to be satisfied under this scheme

c) Long Term Indexed Share Appreciation Scheme

The Directors' interests in the LTISAS are listed below

	Date of award	Price at date of grant £	Final exercise price[1] £	At 1 January 2007	Exercised[2]	At 31 December 2007	Exercisable between[3]
Paul Pindar	2511.2002	2 16	3 48	600,000	–	600,000	2511 2007 to 2511 2012
	2511.2004	3 51	4 74	600,000	–	600,000	2511 2007 to 2511 2012
Paddy Doyle	2511.2002	2.16	3 48	600,000	600,000	–	2511.2007 to 2511 2012
	2511.2004	3 51	4 74	600,000	–	600,000	2511 2007 to 2511 2012
Gordon Hurst	2511.2002	2 16	3 48	600,000	600,000	–	2511 2007 to 2511 2012
	2511.2004	3 51	4 74	600,000	600,000	–	2511 2007 to 2511 2012
Simon Pilling	2511.2002	2.16	3 48	600,000	600,000	–	2511.2007 to 2511 2012
	2511.2004	3 51	4 74	600,000	600,000	–	2511.2007 to 2511 2012

[1] The grant price was calculated based on the average of the closing share price over the month prior to the date of grant. The exercise price of the options increased in line with the FTSE All Share Index, measured from the date of grant to 25 November 2007 The adjusted exercise prices are set out above

[2] Simon Pilling, Gordon Hurst and Paddy Doyle each exercised LTISAS options, as specified above, on 5 December 2007, selling all resulting shares for 710p each The closing market price on the day of exercise was 727.5p

[3] Subject to performance conditions being met. Details of the performance conditions attached to awards made under the LTISAS can be found on page 58 The information on page 58 is unaudited.

At 31 December 2007 the market price for a Capita share was 698p and the FTSE All Share Index stood at 3,287 (25 November 2002 – 1 980 and 25 November 2004 – 2,367)

d) Long Term Investment Plan

Awards under the LTIP were structured either as Restricted Share Awards or Indexed Performance Share Appreciation Rights (IPSARs) The last Restricted Share Awards and awards of IPSARs vested in full in May 2001 and 2003 respectively No further awards were made under the LTIP Only one award of IPSARs was made

IPSARs

	Number of shares 1 January 2007	Vesting date	Exercised in the year	Number of shares 31 December 2007	Latest exercise date
Paul Pindar	1,200,000	05 05 2003	–	1,200,000	05 05 2008

The performance requirements in respect of the IPSARs were met in full on 4 May 2003 and the IPSARs are exercisable at a price of 169p per share

e) Deferred Annual Bonus Plan (DAB)

	At 1 January 2007	Date of award	Awarded Deferred Shares	Matching Shares	At 31 December 2007
Paul Pindar	123,577	23 02 2007	36,082	54,123	213,782
Paddy Doyle	98,135	23 02 2007	28,653	42,979	169,767
Gordon Hurst	88,845	23 02 2007	25,941	38,911	153,697
Simon Pilling	69,230	23 02 2007	21,595	32,392	123,217

Details regarding the DAB can be found on page 58 The information on page 58 is unaudited The value of the Deferred Shares is included in the Performance Related Bonus figure in table (a) on page 60

Directors' remuneration report

(f) Capita Share Ownership Plan
Paddy Doyle participated in the Capita Share Ownership Plan during 2007 As a result of his participation, he was awarded 21 Matching Shares during the period to 31 December 2007 The Participant Shares and Matching Shares are included in the table of Directors' interests in shares on page 59

g) Pensions
Pension contributions are made into the Group's defined contribution scheme The Company makes contributions at a rate of 5% of basic salary Gordon Hurst, Simon Pilling and Paddy Doyle made additional contributions, by way of salary sacrifice in the year, to a separate executive defined contribution scheme

Changes in Directors' interests
Between the end of the financial year and 28 February 2008, Paddy Doyle acquired 42 shares under the Capita Share Ownership Plan, increasing his beneficial interest in ordinary shares of the Company to 26,539

The remuneration report has been approved by the Group Board and has been signed on behalf of the Board by

Eric Walters
Non-Executive Chairman
28 February 2008

Martina King
Chairman of the Remuneration Committee
28 February 2008

The Directors' report from pages 01–62 was approved by the Group Board and has been signed on behalf of the Board by

Gordon Hurst
Company Secretary
28 February 2008

Accounts

Consolidated income statement

for the year ended 31 December 2007

		2007			2006		
	Notes	Before amortisation £m	Amortisation £m	Total £m	Before amortisation £m	Amortisation £m	Total £m
Continuing operations							
Revenue	3	**2,073 3**	**-**	**2,073 3**	1,738 5	-	1,738 5
Cost of sales		**1,498.5**	**-**	**1,498 5**	1,256 5	-	1,256 5
Gross profit		**574 8**	**-**	**574 8**	482 0	-	482 0
Administrative expenses		**303 5**	**9 7**	**313.2**	256 9	6 9	263 8
Operating profit	6	**271 3**	**(9 7)**	**261 6**	225 1	(6 9)	218 2
Finance revenue	8	**1 6**	**-**	**1 6**	1 0	-	1 0
Finance costs	9	**(35 7)**	**-**	**(35 7)**	(26 0)	-	(26 0)
Investment income	4	**1 2**	**-**	**1.2**	-	-	-
Profit before tax		**238 4**	**(9 7)**	**228 7**	200 1	(6 9)	193 2
Income tax expense	10	**(66 0)**	**3 5**	**(62 5)**	(55 4)	1 9	(53 5)
Profit for the year		**172 4**	**(6.2)**	**166.2**	144 7	(5 0)	139 7
Attributable to							
Equity holders of the parent		**172 4**	**(6 2)**	**166 2**	144 8	(5 0)	139 8
Minority interest		**-**	**-**	**-**	(0 1)	-	(0 1)
		172 4	**(6.2)**	**166.2**	144 7	(5 0)	139 7
Earnings per share	11						
– basic		**28 10p**	**(1 01)p**	**27 09p**	23 10p	(0 78)p	22 32p
– diluted		**27 63p**	**(0 99)p**	**26 64p**	22 56p	(0 76)p	21 80p

Consolidated statement of recognised income and expense

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Actuarial gains on defined benefit pension schemes	32	**25 4**	12 8
Exchange differences on translation of foreign operations		**1 1**	(0 7)
Gain on available for sale investments		**–**	0 3
Gains on cash flow hedges	25	**5 6**	–
Tax on items taken directly to equity	10	**(5 0)**	11 0
Net income recognised directly in equity		**27 1**	23 4
Profit for the year		**166.2**	139 7
Total income and expense for the period		**193 3**	163 1
Attributable to:			
Equity holders of the parent		**193 3**	163 2
Minority interest		**–**	(0 1)
		193 3	163 1

Consolidated balance sheet

at 31 December 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Property, plant and equipment	13	193.4	171.0
Intangible assets	14	745.7	630.0
Financial assets	16	60.6	32.6
Trade and other receivables	18	11.1	6.8
Employee benefits	32	20.3	–
Deferred taxation	10	1.4	22.1
		1,032.5	862.5
Current assets			
Financial assets	16	0.9	–
Trade and other receivables	18	456.4	394.9
Cash	19	0.8	9.7
		458.1	404.6
Total assets		1,490.6	1,267.1
Current liabilities			
Trade and other payables	20	556.9	449.4
Financial liabilities	22	57.7	50.4
Provisions	24	1.8	1.0
Income tax payable		36.3	33.5
		652.7	534.3
Non-current liabilities			
Trade and other payables	20	9.2	0.8
Financial liabilities	22	480.2	378.7
Provisions	24	0.8	0.7
Employee benefits	32	15.9	26.8
		506.1	407.0
Total liabilities		1,158.8	941.3
Net assets		331.8	325.8
Capital and reserves			
Issued share capital	26	12.6	12.3
Share premium	28	374.9	308.1
Treasury shares	26	–	–
Capital redemption reserve	28	1.8	1.7
Foreign currency translation	28	0.7	(0.4)
Net unrealised gains reserve	28	4.0	–
Retained earnings	28	(62.2)	4.0
Equity shareholders' funds		331.8	325.7
Minority interest	28	–	0.1
Total equity		331.8	325.8

The accounts were approved by the Board of Directors on 28 February 2008 and signed on its behalf by

P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

Consolidated cash flow statement

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Operating profit on continuing activities before interest and taxation		261 6	218.2
Depreciation	13	46 1	42 2
Amortisation of other intangible assets (treated as depreciation)	14	1 5	1 2
Amortisation of intangible assets created on acquisition	14	9 7	6 9
Share based payment expense	27	8 6	8 5
Pension charge	32	15.2	15 9
Pension contributions	32	(21 0)	(19 1)
(Profit)/loss on sale of property, plant and equipment		(0 1)	0 3
Movement in provisions	24	0 9	(1 9)
Increase in debtors		(71 4)	(48 8)
Increase in creditors		82 9	55 6
Cash generated from operations		334 0	279 0
Income tax paid		(45 8)	(40 3)
Interest paid		(33 5)	(23 1)
Interest received		1 6	1 0
Cash generated from operations after interest		256 3	216 6
Net cash used in investing activities			
Purchase of property, plant and equipment	13	(67 9)	(63 0)
Proceeds from sale of property, plant and equipment		1 0	1 9
Purchase of intangible fixed assets	14	(5 0)	(1 4)
Acquisition of subsidiary undertakings and businesses		(94 7)	(37 6)
Cash acquired with subsidiary undertakings		4 4	1 0
Purchase of financial assets	16	(4 4)	(7 6)
Investment loan	16	(16 6)	(11 7)
		(183 2)	(118 4)
Net cash used in financing activities			
Issue of ordinary share capital	28	67.2	50 4
Share buybacks	28	(43 9)	(244 9)
Share transaction costs	28	(0 5)	(1 2)
Dividends paid	12	(218 6)	(47 7)
Capital element of finance lease rental payments	29	(0 4)	(0 4)
Instalment debtor movement	29	20 4	–
Asset based securitised financing	29	(17 8)	(0 7)
Repayment of loan notes and long term loans	29	(34 6)	(3 4)
Proceeds on issue of bonds	29	100 9	179 1
Financing arrangement costs	22	(0 3)	(0 9)
		(127 6)	(69 7)
Net increase in cash and cash equivalents		(54 5)	28 5
Cash and cash equivalents at the beginning of the period		9.2	(19 3)
Cash and cash equivalents at 31 December		(45 3)	9 2
Cash and cash equivalents comprise			
Overdraft	22	(46 1)	(0 5)
Cash at bank and in hand	19	0 8	9 7
Total		(45 3)	9 2

Notes to the consolidated financial statements

for the year ended 31 December 2007

1 Corporate information

The consolidated financial statements of The Capita Group Plc for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Directors on 28 February 2008 The Capita Group Plc is a public limited company incorporated in England and Wales whose shares are publicly traded

The principal activities of the Group are given in the business review on pages 37–41

2 Summary of significant accounting policies

(a) Statement of compliance

The consolidated financial statements of The Capita Group Plc and all of its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985 The parent company continues to apply UK GAAP in the preparation of its individual financial statements and these are contained on pages 103–113

(b) Basis of preparation

The consolidated financial statements have been prepared under IFRS where certain financial instruments and the pension assets and liabilities have been measured at fair value The carrying value of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest tenth of a million (£m) except when otherwise indicated

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of The Capita Group Plc and its subsidiaries as at 31 December each year The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies, but in accordance with UK GAAP Adjustments are made to bring into line any dissimilar accounting policies that may exist between IFRS and UK GAAP

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which The Capita Group Plc has control.

(d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows

The Group has adopted the following new IFRS and IFRIC interpretations during the year Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group They did, however, give rise to additional disclosures

- IFRS 7 Financial Instruments: Disclosure
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment.

The Group has also early adopted the following IFRIC interpretations **Adoption** of these interpretations did not have any effect on the financial position of the Group

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of these changes are as follows

IFRS 7 – Financial Instruments Disclosure This standard requires the Group to make disclosures to enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments As IFRS 7 is a disclosure standard, there is no impact other than enhanced disclosure, with comparative information being revised where needed

IFRIC 9 – Reassessment of Embedded Derivatives This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows As the Group has no embedded derivative requiring separation from the host contract, adoption of this interpretation has had no impact on the financial statements of the Group

IFRIC 10 – Interim Financial Reporting and Impairment As of 1 January 2007, the Group adopted IFRIC 10 which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions The Group has elected to early adopt IFRIC Interpretation 11 as of 1 January 2007, insofar as it applies to consolidated financial statements This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments themselves

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction The Group has elected to early adopt IFRIC Interpretation 14 as of 1 January 2007 This interpretation provides guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of surplus that can be recognised as an asset. It also explains that when a plan is operated in an environment of statutory or contractual minimum funding requirements, and there are restrictions over the amounts that the employer can recover from the plan, an obligation to pay contributions may give rise to a liability additional to the liability that is recognised in respect of the IAS 19 deficit.

2 Summary of significant accounting policies (continued)

(e) Revenue

There have been no changes in the Group's accounting policies for revenue in the year; however the Group feels that it would be helpful to provide enhanced disclosure in respect of its accounting policies in this area

Revenue is earned within the United Kingdom, Europe, India and South-East Asia

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured Other than in respect of service contracts, described below, and where the Group is acting as lessor (see (v)), revenue represents fee income recognised in respect of services provided during the period (stated net of value added tax)

For time and materials contracts which are those where Capita provide staff to customers at hourly or daily rates, revenue is recognised on the basis of time worked

Revenue on contracts where there is an ongoing service (e g life and pensions policy administration, hardware maintenance) is recognised over the period during which the service is provided

Contracts where there are distinguishable components are separated and revenue is recognised individually on the basis that each component can be reliably estimated Revenues and costs relating to each element are recognised simultaneously

(f) Service contracts

(i) **Brownfield outsourcing contracts** – Brownfield contracts are where there is a transfer of an existing operation to the Group For brownfield contracts all costs incurred prior to service commencement are expensed as incurred and revenue represents fee income in respect of services provided

(ii) **Greenfield outsourcing contracts** – A greenfield contract is one in which an entirely new service is being established for a customer For these contracts no profit is recognised until service delivery commences and is being invoiced Upon commencement, revenue represents fees invoiced in respect of services provided Direct incremental costs incurred on the contract prior to service commencement and reimbursable during the contract, excluding any overheads, are included in prepayments and amortised over the life of the contract. On some contracts, non-refundable payments are received, prior to full service commencement, on the achievement of agreed contract delivery milestones These are recognised as revenue when earned

(iii) **Property consultancy and transformation contracts** – Revenue represents the sales value of work done in the year, including fees invoiced and estimates in respect of amounts to be invoiced after the year-end 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.

In respect of construction contracts, gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

(g) Foreign currency translation

The functional and presentation currency of The Capita Group Plc and its United Kingdom subsidiaries is the pound sterling (£) Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

The functional currencies of overseas operations include the euro, Indian rupee, Malaysian ringgit, South Korean won and the Philippine peso As at the reporting date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of The Capita Group Plc at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year The exchange differences arising on the retranslation are taken directly to a separate component of equity On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement

The Group has elected not to record cumulative translation differences arising prior to the transition date as permitted by IFRS 1 In utilising this exemption, all cumulative translation differences are deemed to be zero as at 1 January 2004 and all subsequent disposals shall exclude any translation differences arising prior to the date of transition.

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

(h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows

Freehold buildings and long leasehold property	– over 50 years
Leasehold improvements	– period of the lease
Plant and equipment	– 3 – 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the administrative expenses line item

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is de-recognised

(i) Borrowing costs

Borrowing costs are currently recognised as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23

(j) Goodwill

Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at this date This goodwill had been amortised on a straight-line basis over its useful economic life (ranging from 5 to 20 years) This was changed on transition to IFRS Goodwill recognised subsequent to 1 January 2004 is, on acquisition, initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities Following initial recognition, goodwill is measured at cost less any accumulated impairment losses Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves and does not get recycled through the income statement

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained

(k) Intangible assets

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses The useful lives of intangible assets are assessed to be either finite or indefinite There were no indefinite-lived assets in 2006 or 2007 Amortisation is charged on assets with finite lives, this expense is taken to the income statement through the administrative expenses line item

Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, where there is an indicator of impairment.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is de-recognised

Intangible assets identified and recognised since transition to IFRS are profiled as follows

- Brands are amortised evenly over their useful economic lives of 5 and 10 years
- Software and licences are amortised over their useful economic lives of 5 years
- Contracts and committed sales are amortised over their useful economic lives of between 1.5 and 10 years
- Customer lists and relationships are amortised over their useful economic lives of between 4 and 10 years
- Other intangibles are amortised over their useful economic lives of 6.5 years.

2 Summary of significant accounting policies (continued)

(l) Recoverable amount of non-current assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets

(m) Investments and other financial assets
All investments are initially recorded at their fair value Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Investment loans are measured at amortised cost using the effective interest method

Available for sale financial assets are measured at their fair value with unrealised gains or losses being recognised directly in equity When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Financial assets at fair value through the income statement (disclosed in investment income) include financial assets designated upon initial recognition as at fair value through the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy

(n) Trade and other receivables
Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts An estimate for doubtful debts is made when collection of the full amount is no longer probable Bad debts are written off when identified

(o) Cash and cash equivalents
Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, except where no right of set-off exists

(p) Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at their fair value

After initial recognition loans and borrowings are subsequently measured at amortised cost using the effective interest method Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are de-recognised, as well as through the amortisation process

(q) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(r) 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.

(s) Pre-contract costs
Pre-contract award bidding costs are expensed as incurred

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

(t) Pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid The contributions are recognised as an employee benefit expense in the income statement for the year when they are due

In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice Past service costs are recognised immediately in the income statement, unless the changes are conditional on employees remaining in service for a specified period of time (the vesting period) In this case, the past service costs are amortised on a straight-line basis over the average vesting period

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest cost element of the defined benefit pension charge represents a change in the present value of scheme obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation taking into account material changes in the obligation during the year The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on fair value of plan assets of contributions received and benefits paid during the year

In respect of three of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only

Actuarial gains and losses are fully recognised in equity through the statement of recognised income and expense such that the balance sheet reflects the scheme's surplus or liability at the balance sheet date Current and past service cost are charged to operating profit with the interest cost, net of expected return on assets in the plans, included within administrative expenses.

The liability on the balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly Fair value is based on market price information and in the case of quoted securities is the published bid price The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions

(u) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations Such derivative financial instruments are stated at fair value The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction

In relation to fair value hedges (e g fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

(v) Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and is concerned with whether the fulfilment of the arrangement is dependent upon the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly against income

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term

Group as a lessor Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases Rental income arising from operating leases is recognised in the income statement on a straight-line basis over the lease term.

2 Summary of significant accounting policies (continued)

(w) Income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred income tax liabilities are recognised for all taxable temporary differences

- except where the deferred tax liability arises from the initial recognition of goodwill
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(x) Share based payments

The Group operates a number of executive and employee share schemes

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006

(y) Participation in Lloyd's market syndicate

Capita provides run off administrative services to Lloyd's syndicates On occasion where there is a commercial driver to do so, the Group will take an equity holding in a Corporate Member (a limited liability company – operating in the Lloyd's market)

The Group has treated this arrangement as an investment in a joint venture, whereby the Group and the other venturers have a contractual arrangement that establishes joint control over the economic activities of the entity The Group's investment in the joint venture is accounted for using the equity method of accounting Under the equity method the investment in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity The income statement reflects, where material, the share of the results of operations of the joint venture Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture The Corporate Member's share of the assets and liabilities of the syndicate and the quota share arrangement are further disclosed in note 16 to these financial statements

Notes to the consolidated financial statements

2 Summary of significant accounting policies (continued)

(z) New standards and interpretations not applied

The IASB and the IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements.

		Effective date
International Accounting Standards (IAS/IFRSs)		
IFRS 3	Business Combinations (Revised)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 23	Borrowing Costs (Revised)	1 January 2009
IAS 1	Presentation of Financial Statements (Revised)	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application

3 Revenue

Revenue disclosed in the income statement is analysed as follows

	Notes	2007 £m	2006 £m
Rendering of services		**1,964 0**	1,649 9
Construction contracts	21	**107 8**	70 5
Rental income from operating leases	23	**1 5**	18 1
Revenue from operating activities		**2,073 3**	1,738 5
Finance revenue	8	**1 6**	1 0
Total revenue		**2,074 9**	1,739.5

4 Investment income

Investment income includes

	2007 £m	2006 £m
Gain on financial assets measured at fair value through the income statement	1 2	–
	1.2	–

5 Segmental information

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the business review on pages 37–41

Before eliminating sales between business units on consolidation, the Group accounts for sales between business units as if they were to a third party at market rates

The tables below present revenue, result and certain asset and liability information for the Group's business segments for the years 2007 and 2006 All operations in 2007 are continuing

Year ended 31 December 2007

Segment revenue	HR Solutions £m	Property Consultancy £m	Insurance and Specialist Services £m	Financial Services £m	Integrated Services £m	ICT and Advisory Services £m	Life & Pensions £m	Professional Services £m	Total £m
Total segment revenue	265 7	244 6	350 0	158.2	317 5	383 3	264 8	302 4	2,286 5
Inter-segment revenue	(19 8)	(12.7)	(25.5)	(1.3)	(15 1)	(91 4)	(9 3)	(38 1)	(213.2)
Third party revenue	245 9	231 9	324 5	156 9	302 4	291 9	255 5	264.3	2,073.3
Segment result									
Result after depreciation	24 4	20 4	37.5	37 9	48 8	29 7	32 3	48 9	279 9
Share based payment	(1 0)	(1 1)	(1.5)	(0 6)	(2.2)	(0 7)	(0 7)	(0 8)	(8 6)
Intangible amortisation	(0 1)	(0 7)	(3 0)	(1.2)	(1 3)	(0 5)	(1 4)	(1.5)	(9 7)
	23 3	18 6	33 0	36 1	45 3	28 5	30 2	46 6	261 6
Net finance costs									(34 1)
Investment income									1 2
Profit before tax									228 7
Corporation taxation									(62.5)
Profit after tax									166 2
Other segment information									
Assets by segment									
Assets	65 6	72 0	162.1	55 9	105 4	53 8	122.3	54 3	691 4
Intangible assets	81 4	55 0	240 8	176 9	47 9	28 0	64 8	50 9	745 7
	147 0	127 0	402 9	232 8	153 3	81 8	187 1	105 2	1,437 1
Liabilities	(32 6)	(28 4)	(137.3)	(49.5)	(106 4)	(70 9)	(78 6)	(111 0)	(614 7)
Net allocated assets/(liabilities)	114 4	98 6	265 6	183.3	46 9	10 9	108.5	(5 8)	822 4
Unallocated assets									53 5
Unallocated liabilities									(544 1)
Total net assets									331 8
Capital expenditure									
Tangible assets	3 9	2 7	7.2	3 8	9 9	9 1	23.2	8 1	67 9
Depreciation charge	2 8	2 7	7 3	2 1	9 5	6 8	6 4	8 5	46 1
Intangible assets	2 3	0 9	41 6	18 0	24 1	0 0	26 8	13.2	126 9
Intangible amortisation	0 1	0 7	3 0	1.2	1 3	0 5	1 4	1 5	9 7

Unallocated assets include held for sale financial assets, financial assets held at fair value through the income statement, the cash flow hedge financial asset, cash in bank, currency and interest rate swaps and the pension asset. Unallocated liabilities include overdrafts, lease obligations, loan notes, currency swaps, bonds and the pension liability

Notes to the consolidated financial statements

5 Segmental information (continued)
The tables below present revenue by the geographical location of customers, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets

Revenue	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	2,217 5	69 0	2,286 5
Inter-segment revenue	(203 8)	(9 4)	(213.2)
Third party revenue	2,013 7	59 6	2,073 3
Other segment information			
Assets	665 0	26 4	691 4
Intangible assets	712 1	33 6	745 7
Unallocated assets	53 5	–	53 5
Total assets	1,430 6	60 0	1,490 6
Capital expenditure			
Tangible assets	62 5	5 4	67 9
Intangible assets	109 6	17 3	126 9

Year ended 31 December 2006

Segment revenue	HR Solutions £m	Property Consultancy £m	Insurance and Specialist Services £m	Financial Services £m	Integrated Services £m	ICT and Advisory Services £m	Life & Pensions £m	Professional Services £m	Total £m
Total segment revenue	226 0	225 5	310 1	120 9	317 6	329 3	186 9	249 5	1,965 8
Inter-segment revenue	(20 1)	(26 1)	(26 9)	(0 1)	(16 7)	(77 0)	(2 6)	(57 8)	(227.3)
Third party revenue	205 9	199 4	283 2	120 8	300 9	252 3	184 3	191 7	1,738 5
Segment result									
Result after depreciation	18 7	13 9	32 8	32 1	48 7	25 8	23 4	38 2	233 6
Share based payment	(1 0)	(1 1)	(1 5)	(0 6)	(2 1)	(0 7)	(0 7)	(0 8)	(8 5)
Intangible amortisation	–	(0 2)	(2 2)	(0 9)	(0 9)	(0 4)	(1 2)	(1 1)	(6 9)
	17 7	12 6	29 1	30 6	45 7	24 7	21 5	36 3	218 2
Net finance costs									(25 0)
Profit before tax and minority interests									193 2
Corporation taxation									(53 5)
Minority interests									0 1
Profit after tax and minority interests									139 8
Other segment information									
Assets by segment									
Assets	58 8	68 1	135 7	62 7	118 0	37 2	75 3	51 5	607.3
Intangible assets	79 2	54 8	203 7	160 1	25 1	28 4	39 4	39 3	630 0
	138 0	122 9	339 4	222 8	143 1	65 6	114 7	90 8	1,237 3
Liabilities	(29 1)	(24 0)	(129 9)	(60 8)	(95 7)	(34 9)	(37 5)	(101 0)	(512 9)
Net allocated assets/(liabilities)	108 9	98 9	209 5	162 0	47 4	30 7	77 2	(10 2)	724 4
Unallocated assets									29 8
Unallocated liabilities									(428 4)
Total net assets									325 8
Capital expenditure									
Tangible assets	4 4	3 1	5 3	3 6	16 6	4 9	18 4	6 7	63 0
Depreciation charge	1 6	2 7	4 7	2 0	19 1	3 8	4 9	3 4	42 2
Intangible assets	0 2	2 6	6 0	20 9	0 4	7 9	0 3	11 1	49 4
Intangible amortisation	–	0 2	2 2	0 9	0 9	0 4	1 2	1 1	6 9

5 Segmental information (continued)

The tables below present revenue by the geographical location of customers, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets

Revenue	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	1,915 3	50 5	1,965 8
Inter-segment revenue	(231 1)	3 8	(227 3)
Third party revenue	1,684 2	54 3	1,738 5
Other segment information			
Assets	581 1	26 2	607.3
Intangible assets	612 7	17 3	630 0
Unallocated assets	29 8	–	29 8
Total assets	1,223 6	43.5	1,267 1
Capital expenditure			
Tangible assets	59 4	3 6	63 0
Intangible assets	39 6	9 8	49 4

6 Operating profit

This is stated after charging/(crediting)

	Notes	2007 £m	2006 £m
Employee benefits expense	7	872 7	749 9
Amortisation of intangible assets (as shown in amortisation column)	14	9 7	6 9
Depreciation	13	46 1	42 2
(Profit)/loss on sale of property, plant and equipment		(0 1)	0 3
Amortisation of other intangible assets (treated as depreciation)*	14	1 5	1 2
Minimum lease payments recognised as an operating lease expense		69 5	63 6
Foreign exchange differences		0.2	0 7

*Included within operating activities before amortisation.

UK fees paid to the auditors include fees in relation to	2007 £m	2006 £m
Audit of financial statements	0 5	0 5
Other UK fees		
Local statutory audits for subsidiaries	0 3	0 3
Further assurance services	0 1	0 1
Other non-audit services**	0 1	0 1
	1 0	1 0

**There were no other amounts payable to the auditors requiring disclosure under s390B of the Companies Act 1985

7 Employee benefits expense

	2007 £m	2006 £m
Wages and salaries	751 1	645 2
Social security costs	76 0	63 1
Pension costs (see note 32)	37 0	33 1
Share based payments	8 6	8 5
	872 7	749 9

The average number of employees during the year was made up as follows.	2007 Number	2006 Number
Sales	682	671
Administration	1,728	1,749
Operations	24,014	23,164
	26,424	25,584

Details of Directors' remuneration are contained within the Directors' remuneration report on pages 57–62

Notes to the consolidated financial statements

8 Finance revenue

	2007 £m	2006 £m
Bank interest receivable	1.2	0 4
Other interest receivable	0 4	0 6
Total finance revenue (on a historical cost basis)	1 6	1 0

9 Finance costs

	2007 £m	2006 £m
Loan note interest	1 1	0 8
Bonds	25 8	15 5
Bank loans and overdrafts	8 5	9 5
Other interest payable	0.2	0 1
Unwinding of interest on discounted property provision	0 1	0 1
Total finance costs (on a historical cost basis)	35 7	26 0

10 Income tax

The major components of income tax expense for the years ended 31 December 2007 and 2006 are

Consolidated income statement	2007 £m	2006 £m
Current income tax		
Current income tax charge	61 8	53 1
Adjustment in respect of prior years	(3 0)	(4 6)
Deferred income tax		
Origination and reversal of temporary differences	6 6	5.3
Adjustment in respect of prior years	(2 9)	(0 3)
	62 5	53 5

Consolidated statement of recognised income and expense	2007 £m	2006 £m
Deferred income tax related to items charged/(credited) directly to equity		
Current income tax deduction on exercise of stock options in excess of share based payments	(10 0)	(7 6)
Deferred income tax on cash flow hedges	1 6	–
Deferred income tax movement in relation to share based payments	5 8	(7 2)
Deferred income tax movement in relation to actuarial gains on defined benefit plans	7 6	3 8
	5 0	(11 0)

A reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2007 and 2006 is as follows

	2007 £m	2006 £m
Accounting profit before tax	228 7	193.2
Notional charge at UK corporation tax rate of 30% (2006 30%)	68 6	58 0
Adjustments in respect of current income tax of prior years	(3 0)	(4 6)
Adjustments in respect of deferred tax of prior years	(2.9)	(0 3)
Non-deductible expenses	1 8	1 6
Attributable to lower tax rates in overseas jurisdictions	(1.5)	(1 2)
Attributable to reduction in corporation tax rate	(0 5)	–
At the effective tax rate of 27 3% (2006 27 7%)	62 5	53 5
Total tax expense reported in the income statement	62.5	53 5

The tax charge for the year ended 31 December 2007 was £62 5m (2006 charge of £53 5m) and is after a prior year net credit of £3 0m resulting from the successful resolution of issues with relevant tax authorities The tax charge is equivalent to an underlying effective tax rate of 27 3% (2006 27 7%) The effective tax rate on profit before amortisation is 27 7% (2006 27 7%) In addition, a net tax charge of £5 0m has been debited directly to equity including a credit of £10 0m in respect of realised stock option gains which resulted in a corresponding reduction in cash tax liabilities for the year ended 31 December 2007

10 Income tax (continued)

Deferred income tax

Deferred income tax at 31 December relates to the following

	Consolidated balance sheet 2007 £m	Consolidated balance sheet 2006 £m	Consolidated income statement 2007 £m	Consolidated income statement 2006 £m
Deferred tax liabilities				
Accelerated capital allowances	(4 6)	(3 5)	3.2	0 9
Pension scheme's asset	(5 7)	–	–	–
Cash flow hedges	(1 6)	–	–	–
Fair value adjustments on acquisition	(12.6)	(10 6)	(3 3)	(1 9)
	(24 5)	(14 1)		
Deferred tax assets				
Share based payments	15 7	20 7	(0 8)	(2 6)
Pension schemes' liability	4 5	11 8	5 4	4 8
Provisions	5 0	3 4	(1 1)	3 3
Losses available for offset against future taxable income	0 7	0 3	0 3	0 5
	25 9	36 2		
Net deferred tax asset	1 4	22 1		
Deferred income tax expense			3 7	5 0

The Group has tax losses which arose in the UK of £11 0m (2006 £5 0m) that are available for offset against future taxable profits of the companies in which the losses arose Deferred tax assets have not been recognised in respect of £8 5m (2006 £4 0m) of these losses, as their recoverability is uncertain

The UK corporation tax rate will decrease from 30% to 28% from 1 April 2008 The deferred tax balance has been adjusted in the current year to reflect this change

There are no income tax consequences attaching to the payment of dividends by The Capita Group Plc to its shareholders

11 Earnings per share

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

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

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

	2007 £m	2006 £m
Net profit attributable to ordinary equity holders of the parent from operations	166 2	139 8

	2007 Number million	2006 Number million
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	613 6	626 3
Dilutive potential ordinary shares		
Employee share options	10.3	15 0
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	623 9	641 3

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

The following additional earnings per share figures are calculated based on earnings attributable to ordinary equity holders of the parent before amortisation of £172 4m (2006 £144 8m) and after amortisation of £166 2m (2006 £139 8m) They are included as they provide a better understanding of the underlying trading performance of the Group

	2007 p	2006 p
Basic earnings per share – before amortisation	28 10	23 10
– after amortisation	27 09	22.32
Diluted earnings per share – before amortisation	27 63	22 56
– after amortisation	26 64	21 80

Notes to the consolidated financial statements

12 Dividends paid and proposed

	2007 £m	2006 £m
Declared and paid during the year		
Ordinary shares (equity)		
Final for 2006 paid 6 3p per share (2005 4 9p per share)	**39.2**	31 1
Interim for 2007 paid 4 0p per share (2006 2 7p per share)	**24 7**	16 6
Special dividend for 2007 paid 25 0p per share (2006 nil p per share)	**154 7**	–
	218 6	47 7
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity)		
Final for 2007 8 0p per share (2006 6 3p per share)	**48 7**	38 9

13 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2006	36 4	227 0	263 4
Subsidiaries acquired	1 4	0 9	2 3
Additions	7 4	55 6	63 0
Disposals	(5 0)	(55 0)	(60 0)
At 31 December 2006	40 2	228 5	268 7
Subsidiaries acquired	**0 3**	**1.2**	**1.5**
Additions	**12 0**	**55 9**	**67 9**
Disposals	**(2 4)**	**(40 5)**	**(42.9)**
At 31 December 2007	**50 1**	**245 1**	**295.2**
Depreciation and impairment			
At 1 January 2006	13 6	99 7	113 3
Provided during the year	4 7	37 5	42 2
Disposals	(3 3)	(54 5)	(57 8)
At 31 December 2006	15 0	82 7	97 7
Provided during the year	**6 0**	**40 1**	**46 1**
Disposals	**(2 4)**	**(39 6)**	**(42 0)**
At 31 December 2007	**18 6**	**83.2**	**101 8**
Net book value			
At 1 January 2006	22 8	127 3	150 1
At 31 December 2006	25 2	145 8	171 0
At 31 December 2007	**31 5**	**161 9**	**193 4**

The net book value of plant and machinery includes an amount of £nil (2006 £0 1m) in respect of assets held under finance leases The net book value of assets held by the Group for which it acts as lessor, amounts to £0 4m (2006 £4 7m)

14 Intangible assets

	Brands £m	Software and licences £m	Contracts and committed sales £m	Customer lists and relationships £m	Goodwill £m	Sub-total £m	Other intangibles £m	Total £m
Cost								
At 1 January 2006	5.3	2 0	6 7	26 7	562 1	602 8	12 0	614 8
Subsidiaries acquired	0 6	–	0 2	7 9	39 3	48 0	–	48 0
Additions	–	–	–	–	–	–	1 4	1 4
At 31 December 2006	5 9	2 0	6 9	34 6	601 4	650 8	13 4	664 2
Recognition of intangibles – prior year acquisitions	0 1	0 3	–	3 0	(2 4)	1 0	–	1 0
Subsidiaries acquired	2 8	3 7	–	8 6	105 8	120 9	–	120 9
Additions	–	–	5 0	–	–	5 0	–	5 0
At 31 December 2007	8 8	6 0	11 9	46 2	704 8	777 7	13 4	791 1
Amortisation and impairment								
At 1 January 2006	1 1	0 6	2 9	1 7	12 0	18 3	7 8	26 1
Amortisation during the year	1 2	0 4	0 9	4 4	–	6 9	1 2	8 1
At 31 December 2006	2 3	1 0	3 8	6 1	12 0	25 2	9 0	34 2
Amortisation during the year	1 6	1 1	0 9	6 1	–	9 7	1 5	11.2
At 31 December 2007	3 9	2 1	4 7	12.2	12 0	34 9	10 5	45 4
Net book value								
At 1 January 2006	4 2	1 4	3 8	25 0	550 1	584 5	4 2	588 7
At 31 December 2006	3 6	1 0	3 1	28 5	589 4	625 6	4 4	630 0
At 31 December 2007	4 9	3 9	7 2	34 0	692 8	742 8	2 9	745 7

During the year a total of £3 4m of intangible assets was recognised in respect of prior year acquisitions This amount was previously reflected within goodwill. As required by IAS 12, deferred taxation is recognised in respect of these items, the impact of this was to increase goodwill in 2007 by £1 0m and to create a deferred tax liability of the same amount.

The amount in 'other intangibles' represents the consideration paid to AON to acquire the contract for the administration of the miners' personal injury liability claims on behalf of the Department of Trade and Industry

15 Impairment of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the groups of cash generating units (CGUs) listed below These represent the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes

The significant groups of CGUs identified are Property Consultancy, HR Solutions, Insurance & Specialist Services, Registrar Services, Financial Services and Life & Pensions The remaining groups of CGUs are included in the 'balance of CGUs' column

The recoverable amount of all the CGUs is based on a value in use calculation using cash flow projections based on the latest one year budget forecast extrapolated for four future years by a growth rate applicable to each unit, an appropriate terminal value based on a perpetuity calculation using nil real growth is then added A discount rate of 11 1% is then applied to these projections

Compound growth rates (years 2-5)	%
Property Consultancy	10 1
HR Solutions	10 1
Insurance & Specialist Services	9 9
Registrar Services	8 7
Financial Services	8 7
Life & Pensions	9 8
Balance of CGUs (weighted average growth rate)	8 5

The growth rates used do not exceed published industry estimates

Carrying amount of goodwill allocated to groups of cash generating units

	Property Consultancy £m	HR Solutions £m	Insurance & Specialist Services £m	Registrar Services £m	Financial Services £m	Life & Pensions £m	Balance of CGUs £m	Total £m
2007								
Goodwill	47 0	82 0	202 0	105 4	81.2	48.2	127 0	692.8
2006								
Goodwill	46 1	80 7	167 7	93 6	77 3	26 5	97 5	589 4

Notes to the consolidated financial statements

15 Impairment of goodwill (continued)

The key assumptions used in the impairment testing were as follows.

- Profit before interest and taxation
- Discount rates
- Rates of growth in CGUs for the years 2 to 5

Profit before interest and taxation

The profit before interest and taxation is based on the assumption that future margins will remain at the levels currently being achieved

Discount rate

The discount rate reflects management's estimate of the gross cost of capital employed for the groups of CGUs listed above This is the benchmark established to assess operating performance and to evaluate future capital investment proposals

Rates of growth in cash generating units beyond the budget period

Growth rate assumptions are based on, as far as possible, published industry research

Goodwill impairment

Management believes that no reasonably possible change in the key assumptions above would cause any of the identified CGUs to become impaired

16 Financial assets

Current	2007 £m	2006 £m
Cash flow hedges	0 9	–
	0 9	–

	2007 £m	2006 £m
Non Current financial assets		
Available for sale investments[1]	0 3	0 3
Investment loan[2]	29 1	12 5
Financial assets at fair value through the income statement[3]	25 4	19 8
Cash flow hedges[4]	4 7	–
Currency swaps[4]	1 0	–
Interest rate swap[4]	0 1	–
Investment in a joint venture[5]	–	–
	60 6	32 6

[1]Available for sale assets includes investments in unlisted ordinary shares The unlisted ordinary shares, for which there is no immediately identifiable market and which have no fixed maturity date or coupon rate, are carried at cost less provision for any impairment

[2]The Group has entered into a funding arrangement with Optima Legal Services Limited (OLSL) and during the year has provided it with an additional £16 6m (2006 £12 5m) to fund that company's acquisition of further volume legal services businesses. In addition, with regard to the prior year, the Group entered into an option agreement to acquire the shares of OLSL for £1 in the event that Law Society rules are amended to allow the Group to own the shares in this type of legal services company

[3]Financial assets at fair value through the income statement include investments in units, held in the Group's insurance captives The units are held in managed funds (comprising units of equities and other assets) which are traded with a quoted market price in an active market. An explanation of the Group's accounting policy with regard to these assets is contained in note 2(m) on page 71 These were classified as available-for-sale assets in the previous period The reclassification was done as it properly reflects the nature of these assets

[4]Details of the interest rate swap, currency swaps and cash flow hedges are contained in note 25

[5]The investment in a joint venture disclosed above represents the Group's interest in a syndicate (for which the Group provides administrative outsourcing services) operating in the Lloyd's market, through its joint venture ownership of Cobex Corporate Member No 1 Limited (Cobex) in conjunction with the Group's insurance partners. The assets and liabilities of this syndicate are as follows

16 Financial assets (continued)

	2007 £m
Investments	5 4
Reinsurance assets	5 7
Other debtors	2 6
Cash and cash equivalents	10 8
Total assets	24 5
Case reserves	(10 6)
Incurred but not reported	(9 6)
Unallocated loss adjustment expense	(2 4)
Other creditors	(1 8)
Accruals and deferred income	(0 1)
Total liabilities	(24 5)
Net position	–

The table above reflects the Cobex share of the assets and liabilities of the Syndicate, Cobex is owned 50 1% by CMGL Holdings Limited (a wholly owned subsidiary of The Capita Group Plc), the remainder being owned by our insurance partner Cobex has in place a quota share arrangement with its insurance partner such that only 8 86% of any profit or loss declared by the Syndicate, in respect of Cobex, would be attributable to the Group

The Group has no rights over the assets or liabilities of the Syndicate other than to the extent that it will receive distributed profits or contribute to relieve losses The Group has in place a letter of credit amounting to £505,000 which is the maximum exposure that the Group has to losses generated within the Syndicate

17 Business combinations

The Group made a number of acquisitions in 2007, of which only two, the acquisition of Harry Weeks and CMGL are considered material and thus disclosed separately, the remainder are shown in aggregate The book and fair values of the assets acquired are disclosed in the tables below

Harry Weeks (now known as Evolvi Rail Systems Limited)	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	–	4 5	4 5
Property, plant and equipment	0 2	–	0 2
Deferred tax	0 3	–	0 3
Debtors	2.3	(0 4)	1 9
Cash and short term deposits	0.2	–	0.2
Creditors	(2 5)	(0.2)	(2 7)
Net assets	0 5	3 9	4 4
Goodwill arising on acquisition			18 1
			22.5
Discharged by			
Cash			22 5

Harry Weeks includes Harry Weeks Travel & Leisure Group Limited, a business travel software provider via its Evolvi and Travelpackonline software products

The Group acquired 100% of the ordinary share capital of Harry Weeks on 2 February 2007 From the date of acquisition Harry Weeks has contributed £0 6m to the net profit after tax of the Group Had the combination taken place at the beginning of the year the profit after tax of the Group would have been £166 1m and the revenue from continuing operations would have been £2,079 4m

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably These items include customer loyalty and the assembled workforce

Notes to the consolidated financial statements

17 Business combinations (continued)

CMGL Group of companies	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	-	7 4	7 4
Property, plant and equipment	0 5	-	0.5
Deferred tax	1 7	-	1 7
Debtors	3 7	-	3 7
Cash and short term deposits	(2.0)	-	(2 0)
Creditors	(9 7)	(1.2)	(10 9)
Long term debt	(6 9)	-	(6 9)
Corporation tax	(0.2)	-	(0.2)
Net assets	(12 9)	6.2	(6 7)
Goodwill arising on acquisition			27 0
			20 3
Discharged by			
Cash			14 4
Loan notes			5 9
			20 3

CMGL Group is a leading provider of outsourced claims and insurance management services to FTSE quoted companies, general insurers, Lloyd's underwriters and London Market companies.

The Group acquired 100% of the ordinary share capital of CMGL on 31 March 2007 From the date of acquisition CMGL has contributed £1 43m to the net profit after tax of the Group Had the combination taken place at the beginning of the year the profit after tax of the Group would have been £163 7m and the revenue from continuing operations would have been £2,107 6m

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably These items include customer loyalty and the assembled workforce

Other acquisitions	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	-	3 2	3.2
Property, plant and equipment	0 8	-	0 8
Deferred tax	1 3	-	1.3
Debtors	6.2	0 2	6 4
Cash and short term deposits	6.2	-	6.2
Creditors	(12 8)	(0 4)	(13.2)
Net assets	1 7	3 0	4 7
Goodwill arising on acquisition			47 9
			52 6
Discharged by			
Cash			52 6

During the year deferred consideration of £5 2m was paid in respect of acquisitions made in prior years, of which £4 5m had been previously provided, the impact of this was to increase goodwill by £0 7m.

Deferred consideration which is expected to be paid has been accrued in respect of acquisitions made in the current year amounting to £7 8m The impact of this is to increase goodwill by the same amount.

As required by IAS 12 deferred taxation is calculated on intangible assets recognised as a result of an acquisition, the impact of this was to increase goodwill in 2007 by £4 3m and to create a deferred tax liability of the same amount.

As a result of the above, total goodwill of £105 8m was recognised in the year

Other acquisitions in the year included Aspen (Actuaries & Pension Consultants) Limited (now known as Capita Hartshead (Actuaries & Pension Consultants) Limited), Higham Dunnet Shaw Plc (now known as Capita Hartshead Solutions Limited), Global Fund Administration Limited (now known as Capita Financial Administrators (Gibraltar) Limited, M V R.A. Limited, Eagle Management Services Limited and CPFR Solutions Limited

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

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably These items include customer loyalty and the assembled workforce

In January 2008 the Group acquired the entire share capital of Nieuwenhuis Services B V for a consideration of €5 3m, with a further € 2 7m payable over the next four years subject to the business achieving certain performance targets

17 Business combinations (continued)
2006 acquisitions
The Group made a number of acquisitions in 2006, which are shown in aggregate below

	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	–	8 7	8 7
Property, plant and equipment	3 2	(0 9)	2 3
Deferred tax	1 2	–	1 2
Debtors	5 4	(0 4)	5 0
Cash and short term deposits	1 0	–	1 0
Creditors	(6 5)	(1 0)	(7 5)
Obligations under finance leases	(0 7)	–	(0 7)
Provisions	(0 3)	–	(0 3)
Long term debt	(2 7)	–	(2 7)
Corporation tax	(0 5)	–	(0 5)
Net assets	0 1	6 4	6 5
Goodwill arising on acquisition			27 6
			34 1
Discharged by			
Cash			34 1

During 2006 deferred consideration of £3 5m was paid in respect of acquisitions made in prior years, of which £3 5m had been provided, there was no impact on goodwill.

Deferred consideration which was expected to be paid was accrued in respect of acquisitions made in 2006 and prior years amounting to £9 1m. The impact of this was to increase goodwill by the same amount.

As required by IAS 12 deferred taxation is calculated on intangible assets recognised as a result of an acquisition, the impact of this was to increase goodwill in 2006 by £2 6m and to create a deferred tax liability of the same amount.

As a result of the above, total goodwill of £39 3m was recognised in 2006

Acquisitions in 2006 included the Sinclair Henderson group of companies, Ruddle Wilkinson Limited, Synaptic Systems Limited, Webline Limited (now known as Capita Financial Software Limited), Stirling Trustees Limited and Two Ten Communications Limited

The performance of these acquisitions post their inclusion in the Group could not be ascertained as they had been fully integrated within existing offerings

Within goodwill there were certain intangibles that were not separable from the acquirees and could not be measured reliably These items included customer loyalty and the assembled workforce

18 Trade and other receivables

Current	2007 £m	2006 £m
Trade receivables	**245 9**	221 4
Other receivables	**29 5**	25 5
Gross amounts due from customers on construction contracts	**11 1**	9 3
Prepayments and accrued income	**169 9**	138 7
	456 4	394 9

Non-current	2007 £m	2006 £m
Other receivables	**1 5**	0 4
Prepayments and accrued income	**9 6**	6 4
	11 1	6 8

Trade receivables are non-interest bearing and are generally on 30 days' terms.

At 31 December 2007, trade receivables at a nominal value of £4 2m (2006 £4 4m) were impaired and fully provided for

Notes to the consolidated financial statements

18 Trade and other receivables (continued)
Movements in the provision for impairment of trade receivables were as follows

	2007 £m	2006 £m
At 1 January	4 4	4 0
Charge for year	3 3	2.5
Amounts written off	(0 9)	(0 1)
Unused amounts reversed	(2 6)	(2 0)
	4.2	4 4

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows

	Total £m	Neither past due nor impaired £m	Past due but not impaired 0 – 3 months £m	4 – 6 months £m	7 – 12 months £m	More than 12 months £m
2007	245 9	197 4	42 7	5 8	–	–
2006	221 4	181 2	36 0	4 2	–	–

19 Cash at bank and in hand

	2007 £m	2006 £m
Cash at bank and in hand	0 8	9 7

Cash at bank earns interest at floating rates based on daily bank deposit rates The fair value of cash is the same as the carrying amount above

20 Trade and other payables

Current	2007 £m	2006 £m
Trade payables	56 5	47 5
Other payables	83 3	59 7
Other taxes and social security	64.2	57 0
Gross amounts due to customers on construction contracts	2 1	2.2
Accruals and deferred income	338 4	273 9
Deferred consideration payable	12 4	9 1
	556 9	449 4
Non-current		
Accruals and deferred income	9.2	0 8
	9.2	0 8

Trade payables are non-interest bearing and are normally settled on terms agreed with suppliers

21 Construction contracts
Presented in the table below are disclosures with regard to the Group's property consultancy business where the provision, as a sub-contractor, is architectural, structural or another service that results in the construction of a new asset.

	2007 £m	2006 £m
Contract revenue recognised in relation to construction contracts in the year	107 8	70 5
Aggregate costs incurred and recognised profits (less losses) to date	112.9	101 0
Gross amount due from customers for construction contracts	11 1	9.3
Gross amount due to customers on construction contracts	2 1	2.2

22 Financial liabilities

Current	2007 £m	2006 £m
Bank overdraft	46 1	0 5
Obligations under finance leases (note 23)	0.2	0 2
Unsecured loan notes	1 7	22 2
Asset-based securitised financing (see below)	9 7	27 5
	57 7	50 4
Non-current		
Obligations under finance leases (note 23)	-	0 3
Bonds	461 1	372 0
Currency swaps	19 1	6 4
	480.2	378 7

The acquisition of BDML included 'insurance debtors subject to a securitisation agreement' The purpose of this arrangement is to securitise customer receivables, derived through the provision of instalment credit facilities to insurance customers of the company The company sells said receivables, with no immediate effect on the income statement, for cash to a third party (Gresham in this case) Gresham takes on the rights and responsibilities of these receivables such that the terms of this agreement dictate that Gresham has no recourse to BDML beyond 14% of the total receivable securitised

The obligations under finance leases are secured on the assets being financed The bank overdraft, bonds and loan notes are unsecured The bank overdraft for the current period attracts interest at standard rates The bank overdraft disclosed as a comparative was held with The Royal Bank of Scotland and therefore there was no right of set off It attracted interest at standard rates The bonds effectively bear interest at a rate based on 6 month LIBOR

Loan notes issued during the year amounted to £5 9m (2006 £nil), further loan notes of £8 2m were assumed through business acquisition and £34 6m (2006 £0 5m) were repaid The interest rates attributable to the loan notes are fixed for each new issue These rates ranged from 3 45% to 5 25%
The loan notes issued in the year bear interest at Bank of England base rate minus 35 basis points The outstanding loan notes totalling £1 7m are repayable on demand and have a final maturity date of 29 March 2009

The Group has issued guaranteed unsecured bonds as follows.

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2002				
Series B	6 44	GBP*	55 0	20 June 2009
Issued 2005				
Series A	0 525 above 6m LIBOR	GBP	50 0	28 September 2013
Series B	0 525 above 6m LIBOR	GBP	25 0	28 September 2015
Total of sterling denominated bonds			130 0	
			US$m	
Issued 2002				
Series A	6 10	US$**	66 0	20 June 2009
Series C	6 47	US$**	36 0	20 June 2012
Issued 2006				
Series A	5 74	US$**	60 0	28 June 2013
Series B	5 88	US$**	130 0	28 June 2016
Series A	5 66	US$**	11 0	13 September 2013
Series B	5 81	US$**	74 0	13 September 2016
Series C	5 77	US$**	60 0	13 September 2016
Issued 2007				
Series A	5 57	US$**	21 0	11 October 2014
Series B	5 88	US$**	179 0	11 October 2017
Total of US$ denominated bonds			637 0 (GBP £331 1m)	

All series are unsecured and rank pari passu in all respects apart from those detailed above

*The Group has entered into an interest rate swap to convert the interest cost to floating rate based on 6 month LIBOR.
**The Group has entered into currency swaps for the US$ issues to achieve a floating rate of interest based on 6 month LIBOR Further disclosure on the Group's use of hedges is included in note 25 commencing on page 89

The issue costs incurred during the year amounted to £0 3m. Issue costs are spread over the life of the bonds to their maturity The unamortised balance of issue costs at the year end totalled £0 8m (2006 £0 6m)

Notes to the consolidated financial statements

23 Obligations under leases and hire purchase contracts

Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts to acquire plant and machinery These leases have terms of renewal and purchase options but no escalation clauses Renewals are at the option of the lessee

The value of future minimum lease payments and their present value, which are the same, is analysed as follows

	2007 £m	2006 £m
Not later than 1 year	0 2	0 2
Later than 1 year but not later than 5 years	–	0 3
	0 2	0 5

Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties, motor vehicles and items of plant and machinery These leases have an average duration of between 3 and 10 years.

Future minimum rentals payable under non-cancellable operating leases are as follows

	2007 £m	2006 £m
Not later than 1 year	55 4	53 7
Later than 1 year but not later than 5 years	139 3	113 3
Later than 5 years	80 7	57 7
	275 4	224 7

Operating lease agreements where the Group is lessor

The Group has determined that certain executory contracts contain embedded leases as defined by IFRIC 4 'Determining whether an Arrangement contains a Lease' Accordingly, these are accounted for as leases in accordance with IAS 17 'Leases'

Future minimum rentals receivable under these embedded operating leases are as follows.

	2007 £m	2006 £m
Not later than 1 year	1 5	18 1
Later than 1 year but not later than 5 years	–	1 5
	1 5	19 6

24 Provisions

	Property provision £m
At 1 January 2007	1 7
Utilisation	(1 0)
Additional provisions in the year	1 8
Unwinding of interest on discounted provisions	0 1
At 31 December 2007	2 6

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

25 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, bond issues, loan notes, finance leases and cash The main purpose of these financial instruments is to raise finance for the Group's operations The Group also has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, primarily interest rate swaps and forward currency contracts The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance

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, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below

Classification of financial instruments

The following table analyses by classification and category all of the Group's financial instruments (excluding short term debtors and creditors) that are carried in the financial statements The values represent both the carrying amounts and the fair value

At 31 December 2007	Available for sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Liabilities at amortised cost £m	Total £m
Financial assets						
Investments in units	–	25 4	–	–	–	25 4
Unlisted equity securities	0 3	–	–	–	–	0 3
Investment loan	–	–	29 1	–	–	29 1
Cash flow hedges	–	–	–	5 6	–	5 6
Interest rate swaps	–	–	–	0 1	–	0 1
Cash in hand	–	–	0 8	–	–	0 8
Currency swaps	–	–	–	1 0	–	1 0
	0 3	25 4	29 9	6 7	–	62 3
Financial liabilities						
Bank overdraft	–	–	46 1	–	–	46 1
Obligations under finance leases	–	–	–	–	0 2	0.2
Unsecured loan notes	–	–	–	–	1 7	1 7
Bonds	–	–	461 1	–	–	461 1
Asset-based securitised financing	–	–	9 7	–	–	9 7
Currency swaps	–	–	–	19 1	–	19 1
	–	–	516 9	19 1	1 9	537 9

At 31 December 2006	Available for sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Liabilities at amortised cost £m	Total £m
Financial assets						
Investments in units	–	19 8	–	–	–	19 8
Unlisted equity securities	0 3	–	–	–	–	0 3
Investment loan	–	–	12 5	–	–	12 5
Cash in hand	–	–	9 7	–	–	9 7
	0 3	19 8	22 2	–	–	42 3
Financial liabilities						
Bank overdraft	–	–	0 5	–	–	0 5
Obligations under finance leases	–	–	–	–	0 5	0 5
Unsecured loan notes	–	–	–	–	22 2	22 2
Bonds	–	–	372 0	–	–	372 0
Asset-based securitised financing	–	–	27 5	–	–	27 5
Currency swaps	–	–	–	6 4	–	6 4
	–	–	400 0	6 4	22 7	429 1

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for unlisted equity securities and investment loans Unlisted equity securities and investment loans are held at amortised cost.

Notes to the consolidated financial statements

25 Financial instruments (continued)
Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows.

At 31 December 2007	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Loan notes	1 7	-	-	-	-	-	1 7
Obligations under finance leases	0.2	-	-	-	-	-	0.2
Floating rate							
Cash in hand	(0 8)	-	-	-	-	-	(0 8)
Overdrafts	46 1	-	-	-	-	-	46 1
Investment loan		-	-	-	-	(29 1)	(29 1)
Assets available for sale	-	(0 3)	-	-	-	-	(0 3)
At fair value through income statement	-	(25 4)	-	-	-	-	(25 4)
Bonds	-	88 4	-	-	18 7	354 0	461 1
Asset-based securitised financing	9 7	-	-	-	-	-	9 7
Cash flow hedges	(0 9)	(0 3)	(0.3)	(0.5)	(0 4)	(3.2)	(5 6)
Interest rate swap	-	(0 1)	-	-	-	-	(0 1)
Foreign currency swaps	-	-	-	-	-	(1 0)	(1 0)
Foreign currency swaps	-	11 8	-	-	6 0	1.3	19 1

The effect of the interest rate swap and the currency swap are disclosed below Bonds are classified as floating rate due to the effect of the interest and currency swaps.

At 31 December 2006	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Loan notes	22 2	-	-	-	-	-	22 2
Obligations under finance leases	0 2	0 3	-	-	-	-	0 5
Floating rate							
Cash and cash equivalents	(9 7)	-	-	-	-	-	(9 7)
Overdrafts	0 5	-	-	-	-	-	0 5
Investment loan	-	-	(12 5)	-	-	-	(12 5)
Assets available for sale	-	(0 3)	-	-	-	-	(0 3)
At fair value through income statement	-	(19 8)	-	-	-	-	(19 8)
Bonds	-	-	99 2	-	-	272 8	372 0
Asset-based securitised financing	27.5	-	-	-	-	-	27 5
Interest rate swap	-	-	-	-	-	-	-
Foreign currency swap	-	-	1 0	-	-	5 4	6 4

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) There is no impact on the Group's equity

	Increase/ (decrease) in basis points	Effect on profit before tax £m
2007	125/(125)	(6 0)/6 0
2006	92/(92)	(3 5)/3 5

25 Financial instruments (continued)

Foreign currency risk

The Group has exposure to foreign currency risk where it has investments in overseas operations which are affected by foreign exchange movements The Group is not generally exposed to significant foreign currency risk except in respect of its overseas operations in India which generate exposure to movements in the INR/GBP exchange rates The Group seeks to mitigate the effect of this exposure by entering forward currency contracts (in the form of Non-deliverable Forward Contracts (NDFs)) to fix the GBP cost of highly probable forecast transactions denominated in INR

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged items in order to maximise hedge effectiveness

At 31 December 2007, the Group had cash flow hedges in place to match its forecast monthly INR costs in 2008 and each year up to and including 2019 These forecast INR costs have been determined on the basis of the underlying cash flows, associated with the delivery of services under signed contracts which run to 2019 These hedges were implemented during the current year

The following table demonstrates the sensitivity to a reasonably possible change in the INR/GBP exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity due to changes in the fair value of the Group's forward exchange contracts

	Increase/ (decrease) in INR exchange rate	Effect on profit before tax £m	Effect on equity £m
2007	8.2%	-	14 4
2006	n/a	-	-

Hedges

Fair value hedges

The Group has in issue fixed rate dollar and sterling bonds which it has hedged through a combination of interest rate and currency swaps

At 31 December 2007 and 31 December 2006, the Group had an interest rate swap in place with a notional amount of £55 0m whereby it receives a fixed rate of interest of 6 44% and pays a variable rate based on 6 month LIBOR The swap is being used to hedge the exposure to changes in the fair value of £55 0m of the Group's 6 44% bonds.

At December 2007 and December 2006, the Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on 6 month LIBOR

The swaps are being used to hedge the exposure to changes in the value of its US dollar issued bonds The unsecured bonds, currency and interest rate swaps have the same critical terms including the amount and the date of maturity (see note 22) The Group may, at its option, upon notice of not less than 30 days and not more than 60 days, repay at any time all or part of the notes at no more than the present value of future payments. In addition, the Group has covenanted to maintain a specified consolidated leverage ratio and a consolidated net interest expense coverage ratio

Cash flow hedges

As noted above, the Group holds a series of forward exchange currency contracts in the form of NDFs designated as hedges of highly probable forecast transactions in INR of the Group's Indian operations

	2007		2006	
Forward exchange contracts	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value	5 6	-	-	-

The terms of the forward currency contracts have been negotiated to match the terms of the commitments

The cash flow hedges in respect of the highly probable forecast monthly costs denominated in INR up to 2019 were assessed to be highly effective and as at 31 December 2007, a net unrealised gain of £5 6m, with a deferred tax charge of £1 6m, was included in equity in respect of these contracts

Credit risk

The Group trades only with recognised, creditworthy third parties It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available for sale financial investments, investment loan, financial assets at fair value through the income statement, investment in a joint venture and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty

The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments

The Group has a master netting arrangement in respect of its banking facilities resulting in the legal right of set-off for its overdraft and cash balances

Notes to the consolidated financial statements

25 Financial instruments (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e g accounts receivable, other financial assets) and projected cash flows from operations

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual payments

At 31 December 2007	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Loan notes	17	–	–	–	–	–	17
Obligations under finance leases	0.2	–	–	–	–	–	0 2
Overdrafts	46 1	–	–	–	–	–	46 1
Bonds	–	88 4	–	–	18 7	354 0	461 1
Asset-based securitised financing	9 7	–	–	–	–	–	9 7
Foreign currency swaps	–	11 8	–	–	6 0	1 3	19 1
	57 7	100.2	–	–	24 7	355 3	537 9

At 31 December 2006	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Loan notes	22 2	–	–	–	–	–	22 2
Obligations under finance leases	0 2	0 3	–	–	–	–	0 5
Overdrafts	0 5	–	–	–	–	–	0 5
Bonds	–	–	99 2	–	–	272 8	372 0
Asset-based securitised financing	27 5	–	–	–	–	–	27 5
Interest rate swap	–	–	–	–	–	–	–
Foreign currency swaps	–	–	1 0	–	–	5 4	6 4
	50 4	0 3	100 2	–	–	278 2	429 1

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006

The Group does not set a target level of gearing but uses capital opportunistically to add value for shareholders The key discipline adopted by the Group is to widen the margin between the return on capital employed and the cost of that capital as shown in the business review on page 19

The table below presents quantitative data for the components the Group manages as capital.

	2007 £m	2006 £m
Shareholders' funds	331 8	325 8
Bank overdraft	46 1	0 5
Finance leases	0 2	0 5
Unsecured loan notes	1 7	22.2
Bonds	461 1	372 0
Currency and interest rate swaps	18 0	6 4
At 31 December	858 9	727 4

26 Authorised and issued share capital

	2007 Million	2006 Million	2007 £m	2006 £m
Authorised				
Ordinary shares of 2 1/15p (2006 ordinary shares of 2p each)	**967 7**	1,000 0	**20 0**	20 0
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each (pre 14 September 2007 ordinary shares of 2p each)				
At 1 January – ordinary shares of 2p each	**617 6**	671 0	**12 3**	13 4
Shares repurchased – ordinary shares of 2p each	**(6 6)**	(52 9)	**(0 1)**	(1 1)
Issued on exercise of share options – ordinary shares of 2p each	**7 9**	16 4	**0.2**	0 4
Reduction in issued shares on consolidation – see below	**(20 0)**	–	–	–
Issued on exercise of share options – ordinary shares of 2 1/15p each	**10 1**	–	**0.2**	–
Treasury shares cancelled – ordinary shares of 2 1/15p each (2006 2p each)	**–**	(16 9)	**–**	(0 4)
At 31 December – ordinary shares of 2 1/15p (2006 ordinary shares of 2p each)	**609 0**	617 6	**12 6**	12 3

In September 2007, The Capita Group Plc, by ordinary resolution, approved a share consolidation whereby shareholders on the register on 14 September 2007 exchanged 31 existing ordinary shares of 2p for 30 new ordinary shares of 2 1/15p each. The effect of the share consolidation was to reduce the authorised share capital of the company to 967,741,920 ordinary shares of 2 1/15p each and to reduce the number of shares in issue by 20m

During the year the Group repurchased 6 6m ordinary 2p shares with an aggregate nominal value of £0 1m at a total cost of £43 6m for which it paid cash at an average cost per share of £6 66 These shares were cancelled

During the year 7 9m ordinary 2p shares with an aggregate nominal value of £0 2m were issued under share option schemes for a total consideration of £29 5m

In addition, 10 1m ordinary 2 1/15p shares with an aggregate nominal value of £0 2m were issued under share option schemes for a total consideration of £37 7m

Treasury shares	2007 Million	2006 Million	2007 £m	2006 £m
Ordinary shares of 2 1/15p (2006 2p each)				
At 1 January	–	16 9	–	0 4
Shares cancelled – ordinary shares of 2p each	–	(16 9)	–	(0 4)
Shares repurchased – 41,163 ordinary 2 1/15p shares	–	–	–	–
At 31 December – ordinary shares of 2 1/15p each (2006 2p each)	–	–	–	–

During the year the Group repurchased 41,163 ordinary 2 1/15p shares with an aggregate nominal value of £851 to be held in treasury for which it paid cash The weighted average cost of each share was £6 61 and the total consideration for these shares was £272,219

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

27 Share based payment plans

The Group operates several share based payment plans as follows.

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report) and Matching Shares The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares The Deferred Shares are held for a period of three years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares Participants will be eligible to receive up to 1 5 Matching Shares for every Deferred Share Matching Shares will vest after the three year holding period to the extent to which performance conditions have been met. 33 3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

Notes to the consolidated financial statements

27 Share based payment plans (continued)

Long Term Indexed Share Appreciation Scheme (LTISAS)

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with two equal tranches of 600,000 options The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006 The exercise price of the option was restated in line with the FTSE All Share Index from the date of grant to 25 November 2007 The restated exercise prices were £3 48 for the 2002 award and £4 74 for the 2004 award This feature ensured that participants only gained if the share price out-performed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets as follows

As growth in the Company's EPS over the three year period to 31 December 2006 exceeded RPI growth by 17 6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards will be made under this plan

1997 Executive Share Option Scheme

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the three year vesting period from the date of grant. The contractual life of each option granted is seven years. There are no cash settlement alternatives.

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at a discount to the market price at the date of grant. The discount is currently nil (2006 nil, 2005 10% and 20% prior to 2005) The options become exercisable for a six month period following completion of a three or five year savings period There are no performance conditions attached to these options

The expense recognised for share based payments in respect of employee services received during the year to 31 December 2007 was £8 6m (2006 £8 5m), all of which arises from equity-settled share based payment transactions

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan and LTISAS)

	2007 Number	2007 WAEP	2006 Number	2006 WAEP
Outstanding as at 1 January	28,907,177	£3 65	42,679,159	£3 29
Granted during the year	5,478,529	£6 89	5,240,564	£4 72
Exercised	(10,776,015)	£3 54	(16,214,092)	£3 12
Forfeited	(2,792,080)	£3 91	(2,458,650)	£2 78
Expired during the year	(162,278)	£4 07	(339,804)	£3 38
Outstanding as at 31 December[1]	20,655,333	£4 54	28,907,177	£3 65
Exercisable at 31 December	4,829,267	£3 45	11,859,421	£3 95

[1]Included within this balance are options over 6,418,161 (2006 11,012,567) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7 03 (2006 £4 97)

As noted above under the LTISAS scheme two tranches of 600,000 share options have been issued to each participant in the scheme Both were deemed to have been granted in November 2002 The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2 16 The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3 51 Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4 11 During the year, 7,200,000 share options under this scheme were exercised at a weighted average exercise price of £4 01, thus the total number of options outstanding under this scheme was 3,493,333 at 31 December 2007 (2006 10,693,333) The weighted average exercise price of these exercisable share options at 31 December 2007 was £4 32

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1 5m (2006 £1 5m) The Matching Shares allocation in respect of the 2006 awards under this plan charged in 2007 was £0 6m

The weighted average fair value of options granted during the year was £1 11 (2006 £1 00) The range of exercise prices for all options outstanding at the end of the year was £1 88 to £7 33 (2006 £0 71 to £5 35)

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted The following table lists the inputs to the model used for the years ended 31 December 2007 and 31 December 2006

	2007	2006
Dividend yield (%)	1.5	1 5
Expected share price volatility (%)	19 00	24 76
Risk free interest rate (%)	4 97	4 5
Expected life of option (years)	3 62	4 43
Weighted average share price of options granted during the year	£6 89	£4 72

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome No other features of options grant were incorporated into the measurement of fair value

28 Reconciliation of movements in equity

	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Net unrealised gains reserve £m	Total equity £m	Minority interests £m	Total £m
At 1 January 2006	13 4	258 1	(0 4)	0 2	125 8	0 3	–	397 4	0 2	397 6
Total recognised income and expense for the year	–	–	–	–	163 9	(0 7)	–	163 2	(0 1)	163 1
Share based payment	–	–	–	–	8 5	–	–	8 5	–	8 5
Purchase of own shares – cancelled	(1 1)	–	–	1 1	(244 9)	–	–	(244 9)	–	(244 9)
Share transaction costs	–	–	–	–	(1 2)	–	–	(1 2)	–	(1 2)
Shares issued	0 4	50 0	–	–	–	–	–	50 4	–	50 4
Treasury shares cancelled	(0 4)	–	0 4	0 4	(0 4)	–	–	–	–	–
Equity dividends paid	–	–	–	–	(47 7)	–	–	(47 7)	–	(47 7)
At 1 January 2007	12 3	308 1	–	1 7	4 0	(0 4)	–	325 7	0 1	325 8
Total recognised income and expense for the year	–	–	–	–	188 2	1 1	4 0	193 3	–	193 3
Share based payment	–	–	–	–	8 6	–	–	8 6	–	8 6
Purchase of own shares – cancelled	(0 1)	–	–	0 1	(43 6)	–	–	(43 6)	–	(43 6)
Transferred to goodwill on purchase of minority interest	–	–	–	–	–	–	–	–	(0 1)	(0 1)
Share transaction costs	–	–	–	–	(0 5)	–	–	(0 5)	–	(0 5)
Shares issued	0 4	66 8	–	–	–	–	–	67.2	–	67.2
Treasury shares purchased	–	–	–	–	(0 3)	–	–	(0.3)	–	(0 3)
Equity dividends paid	–	–	–	–	(218 6)	–	–	(218 6)	–	(218 6)
At 31 December 2007	12 6	374 9	–	1 8	(62.2)	0 7	4 0	331 8	–	331 8

Between October 2005 and March 2007, the Company sought to repurchase 61 8m of its own shares for an aggregate consideration of £289 0m Although the company had sufficient reserves to make these purchases at each transaction date, interim accounts (as defined in the Companies Act 1985) showing the requisite level of distributable profits had inadvertently not been filed with the Registrar of Companies, as required by the Companies Act 1985 As a result of this technical infringement, the repurchase and cancellation of 36 8m shares, equating to £175 4m was invalid This situation was rectified during the year with no net impact on share capital, capital redemption reserve and retained earnings

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 2 $^{1}/_{15}$p ordinary shares

Share premium – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them

Treasury shares – Shares that have been bought back by the Company, which are available for retirement or resale, shares held in treasury have no voting rights and do not have entitlement to a dividend

Capital redemption reserve – The Company can redeem shares by repaying the nominal value to the shareholder, whereupon the shares are cancelled Redemption must be from distributable profits

Foreign currency translation reserve – Gains or losses resulting from the process of expressing amounts denominated or measured in one currency in terms of another currency by use of the exchange rate between the two currencies. This process is required to consolidate the financial statements of foreign affiliates into the total Group financial statements and to recognise the conversion of foreign currency or the settlement of a receivable or payable denominated in foreign currency at a rate different from that at which the item is recorded

Net unrealised gains reserve – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge Also recorded here are fair value changes on available for sale investments

Retained earnings – Net profits kept to accumulate in the Group after dividends are paid and retained in the business as working capital

Notes to the consolidated financial statements

29 Additional cash flow information

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

	Net debt at 1 January 2007 £m	Acquisitions in 2007 (exc cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2007 £m
Cash and cash equivalents	9 7	–	(8 9)	–	0 8
Overdrafts	(0 5)	–	(45 6)	–	(46 1)
Cash	9.2	–	(54.5)	–	(45.3)
Loan notes	(22.2)	–	26 4	(5 9)	(1 7)
Long term debt	–	(8 2)	8 2	–	–
Bonds	(372 0)	–	(100 6)	11 5	(461 1)
Currency swaps	(6 4)	–	–	(11 7)	(18 1)
Interest rate swaps	–	–	–	0 1	0 1
Finance leases	(0 5)	(0 1)	0 4	–	(0.2)
Sub-total net debt	(391 9)	(8.3)	(120 1)	(6 0)	(526 3)
Asset based securitised finance*	(27 5)	–	17 8	–	(9 7)
	(419 4)	(8.3)	(102 3)	(6 0)	(536 0)

*The instalment debtor movement represents the net movement on the underlying balances with customers

	Net debt at 1 January 2006 £m	Acquisitions in 2006 (exc cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2006 £m
Cash and cash equivalents	–	–	9 7	–	9 7
Overdrafts	(19 3)	–	18 8	–	(0 5)
Cash	(19 3)	–	28 5	–	9 2
Loan notes	(22 7)	–	0 5	–	(22 2)
Long term debt	–	(2 9)	2 9	–	–
Bonds	(198 6)	–	(178 6)	5 2	(372 0)
Currency swaps	(2 6)	–	–	(3 8)	(6 4)
Interest rate swaps	1 6	–	–	(1 6)	–
Finance leases	(0 2)	(0 7)	0 4	–	(0 5)
Sub-total net debt	(241 8)	(3 6)	(146 3)	(0 2)	(391 9)
Asset based securitised finance (see note 22)	(28 2)	–	0 7	–	(27 5)
	(270 0)	(3 6)	(145 6)	(0 2)	(419 4)

30 Capital commitments

At 31 December 2007, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £0 9m (2006 £2 0m) The Group has also committed to making a payment of £25m in relation the Prudential contract signed in December 2007

31 Contingent liabilities

(a) The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £37 9m (2006 £7 8m)

(b) Further consideration may be due, dependent on certain performance criteria, on the acquisition of Capita Business Travel Limited (formerly Lonsdale Travel Limited) (acquired 8 November 2005) up to a maximum of £0 3m

(c) Further consideration may be due, dependent on certain performance criteria, on the acquisition of Sinclair Henderson group of companies (acquired 15 July 2006) up to a maximum of £1 5m

(d) Further consideration may be due, dependent on certain performance criteria, on the acquisition of Evolvi Rail Systems Limited (formerly Harry Weeks Travel and Leisure Group Limited) (acquired 1 February 2007) up to a maximum of £12 0m

(e) Further consideration may be due, dependent on certain performance criteria, on the acquisition of Capita Financial Administrators (Gibraltar) Limited (formerly Global Fund Administration Limited) (acquired 30 March 2007) up to a maximum of £2 5m

(f) Further consideration may be due, dependent on certain performance criteria, on the acquisition of the NHS Partners business (acquired 30 March 2007) up to a maximum of £0 9m

(g) Further consideration may be due, dependent on certain performance criteria, on the acquisition of M V R A Holdings Limited (acquired 6 June 2007) up to a maximum of £1 5m

32 Pensions

The Group operates both defined benefit and defined contribution pension schemes. These pension schemes are funded and contributions are made to separate trustee-administered 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 £21 8m (2006 £17 2m)

In 2007 there was one main defined benefit pension scheme where the Group was the sole employing sponsor The Capita Pension and Life Assurance Scheme (Capita scheme) Grouped together under 'Other schemes' are smaller arrangements one scheme where the Group is the sole employing sponsor; allocated sections of two multi-employer schemes in which the Group is a participating employer; an allocated section in an industry wide scheme, and several schemes to which the Group makes contributions under Admitted Body status to our customers' defined benefit pension schemes in respect of certain TUPE employees

For the Admitted Body schemes, which are all part of the Local Government Pension Scheme, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each schemes' Schedule of Contributions In addition, for some schemes, the Group will be required to pay any deficit (as determined by the respective Scheme Actuary) that is remaining for the notional section of the scheme at the end of the contract

The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are

At 31 December 2007	Capita scheme £m	Other schemes £m	Group total £m
Scheme assets at fair value			
Equities/Hedge funds/Absolute returns	**248 9**	**85 1**	**334 0**
Bonds	**56 1**	**33 6**	**89 7**
Property	**17 5**	**8 8**	**26 3**
Insurance contracts	**3 5**	**0 5**	**4 0**
Cash/other	**24 5**	**9 6**	**34 1**
Total	**350 5**	**137 6**	**488 1**
Present value of scheme liabilities	**(330 2)**	**(153 5)**	**(483 7)**
Net asset/(liability)	**20 3**	**(15 9)**	**4 4**

At 31 December 2006	Capita scheme £m	Other schemes £m	Group total £m
Scheme assets at fair value			
Equities/Hedge funds/Absolute returns	234 6	79 4	314 0
Bonds	64 3	32 2	96 5
Property	12 9	7 9	20 8
Insurance contracts	3 2	0 4	3 6
Cash/other	6 4	2 5	8 9
Total	321 4	122 4	443 8
Present value of scheme liabilities	(328 8)	(141 8)	(470 6)
Net liability	(7 4)	(19 4)	(26 8)

A pension asset of £20 3m has been recognised in the current year as the Directors believe that this is fully recoverable

The pension schemes have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group

Notes to the consolidated financial statements

32 Pensions (continued)

The amounts recognised in the consolidated income statement and in the consolidated statement of recognised income and expense for the year are analysed as follows.

Year ended 31 December 2007	Capita scheme £m	Other schemes £m	Group total £m
Recognised in the income statement:			
Current service cost	17 9	2 1	20 0
Past service cost	1 3	0.2	1 5
Recognised in arriving at operating profit	19.2	2 3	21 5
Expected return on scheme assets	(22 8)	(8.3)	(31 1)
Interest cost on scheme liabilities	17 4	7 4	24 8
Net finance cost included in administrative expenses	(5 4)	(0 9)	(6.3)
Total defined benefit charge	13 8	1 4	15.2
Taken to the statement of recognised income and expense			
Actual return on scheme assets	18 5	8 0	26.5
Less expected return on scheme assets	(22 8)	(8.3)	(31 1)
	(4.3)	(0.3)	(4 6)
Other actuarial gains	28 4	1 6	30 0
Actuarial gains recognised in the statement of recognised income and expense	24 1	1 3	25 4

Of the total service cost charge of £21 5m, £16 7m was included in cost of sales and £4 8m was included in administrative expenses

Year ended 31 December 2006	Capita scheme £m	Other schemes £m	Group total £m
Recognised in the income statement.			
Current service cost	17 6	2 4	20 0
Past service cost	0 4	–	0 4
Recognised in arriving at operating profit	18 0	2 4	20 4
Expected return on scheme assets	(18 7)	(7 1)	(25 8)
Interest cost on scheme liabilities	15 0	6 3	21 3
Net finance cost included in administrative expenses	(3 7)	(0 8)	(4 5)
Total defined benefit charge	14 3	1 6	15 9
Taken to the statement of recognised income and expense			
Actual return on scheme assets	28 5	10 6	39 1
Less expected return on scheme assets	(18 7)	(7 1)	(25 8)
	9 8	3 5	13.3
Other actuarial gains and (losses)	3 6	(3 9)	(0 3)
Actuarial gains and (losses) recognised in the statement of recognised income and expense	13 4	(0 4)	13 0

Of the total service cost charge of £20 4m, £16 9m was included in cost of sales and £3 5m was included in administrative expenses

Pension contributions are determined based on the advice of qualified independent actuaries

Formal valuations of the Capita scheme and the FPS scheme were carried out as at 6 April 2005 and 31 March 2005 respectively For the other schemes, the latest formal valuations were carried out as at either 1 April 2004, 31 December 2006 or 31 March 2007 These valuations are updated by qualified independent actuaries at each balance sheet date Scheme assets are stated at their market valuations at each respective balance sheet date
The assumption for the expected long-term rate of return on assets has been derived by considering the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class The expected return for each asset was then weighted based on the target asset allocation to develop the assumption for the expected long-term rate of return on assets for the portfolio

32 Pensions (continued)

Main assumptions	Capita scheme 2007 %	Capita scheme 2006 %	Other schemes 2007 %	Other schemes 2006 %
Rate of price inflation	3.2	2 9	3.2	2 9
Rate of salary increase	4.2	3 9	4.2	3 9
Rate of increase of pensions in payment[2]				
– inflation capped at 5%	3.2	2 9	3.2	2 9
– inflation capped at 2 5%	2 3	2 1	2 3	2 1
Discount rate	5 9	5.2	5 9	5.2
Expected rates of return on scheme assets (net of scheme expenses)				
Equities/Hedge funds/Absolute returns	7 6	7 6	7 6	7 6
Bonds	5.2	4 9	5 0 to 5 5	4 7 to 5 0
Property	7 6	7 6	7 6	7 6
Insurance contracts	5 9	5 2	5 9	5 2
Cash/other	5 5	5 0	5 5	5 0
Expected take up of extended limits of tax free cash due to A day legislation	50 0	50 0	50 0[3]	50 0[3]

Post retirement mortality	Capita scheme 2007	Capita scheme 2006	Other schemes[1] 2007	Other schemes[1] 2006
– Current pensioners	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB=1935) rated up 2 years
– Future pensioners	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB=1965) rated up 2 years

Mortality tables above are independently prepared and published

[1]This does not apply to the Admitted Body schemes
[2]There are other levels of pension increase which apply to particular periods of membership
[3]This does not apply to the Admitted Body Schemes where no allowance for the extended limits is taken.

Changes in the present value of the defined benefit pension obligations are analysed as follows

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2006	308 1	130 3	438 4
Current service cost	17 6	2 4	20 0
Past service cost	0 4	–	0 4
Interest cost	15 0	6 3	21 3
Benefits paid	(6 6)	(2 4)	(9 0)
Actuarial gains and losses	(3 6)	3 9	0 3
Contributions by employees	0 4	1 3	1 7
Contract bulk transfers/change in classification of plans	(2 5)	–	(2 5)
As at 31 December 2006	328 8	141 8	470 6
Current service cost	17 9	2 1	20 0
Past service cost	1 3	0.2	1 5
Interest cost	17 4	7 4	24 8
Benefits paid	(8 1)	(3.3)	(11 4)
Actuarial gains and losses	(28 4)	(1 6)	(30 0)
Contributions by employees	0 3	1 1	1 4
Contract bulk transfers/change in classification of plans	1 0	5 8	6 8
As at 31 December 2007	330.2	153 5	483 7

The defined benefit obligation comprises £483 7m (2006 £470 6m) arising from schemes that are wholly or partly funded

Notes to the consolidated financial statements

32 Pensions (continued)
Changes in the fair value of scheme assets are analysed as follows:

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2006	286 1	109 3	395 4
Expected return on scheme assets	18 7	7 1	25 8
Contract bulk transfers/business combinations	(2 5)	–	(2 5)
Employer contributions	15 5	3 6	19 1
Contributions by employees	0 4	1 3	1 7
Benefits paid	(6 6)	(2 4)	(9 0)
Actuarial gains and losses	9 8	3 5	13.3
As at 31 December 2006	321 4	122 4	443 8
Expected return on scheme assets	**22.8**	**8 3**	**31 1**
Contract bulk transfers/business combinations	**1 0**	**5 8**	**6 8**
Employer contributions	**17 4**	**3 6**	**21 0**
Contributions by employees	**0.3**	**1 1**	**1 4**
Benefits paid	**(8 1)**	**(3 3)**	**(11 4)**
Actuarial gains and losses	**(4.3)**	**(0 3)**	**(4 6)**
As at 31 December 2007	**350 5**	**137 6**	**488 1**

The total employer contributions to the defined benefit pension schemes in 2008 are estimated to be £17 8m in respect of the Capita scheme and £4 4m in respect of the 'Other' schemes.

History of experience gains and losses.

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Capita scheme					
Fair value of scheme assets	**350 5**	321 4	286 1	234 4	151 4
Present value of defined benefit obligation	**(330.2)**	(328 8)	(308 1)	(257 8)	(210 4)
Scheme surplus/(deficit)	**20 3**	(7 4)	(22 0)	(23 4)	(59 0)
Experience adjustments arising on scheme liabilities	**-**	3 6	(29 3)	(20 6)	
Experience adjustments arising on scheme assets	**(4 3)**	9 8	26 4	2 6	
Other schemes					
Fair value of scheme assets	**137 6**	122 4	109 3	84 6	72 9
Present value of defined benefit obligation	**(153 5)**	(141 8)	(130 3)	(105 3)	(91 7)
Scheme deficit	**(15 9)**	(19 4)	(21 0)	(20 7)	(18 8)
Experience adjustments arising on scheme liabilities	**0 1**	(3 9)	(13 1)	(4 7)	
Experience adjustments arising on scheme assets	**(0 3)**	3 5	12 5	3 0	

The cumulative amount of actuarial gains recognised since 1 January 2004 in the consolidated statement of recognised income and expense is £15 0m (2006 cumulative actuarial losses of £10 4m) The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £77 8m (of which an IFRS transitional adjustment of £67 7m was taken directly to equity) is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the consolidated statement of recognised income and expense before 1 January 2004

33 Related party transactions
Other than the information disclosed in the Directors' report and the Directors' remuneration report, the only other related party transactions requiring disclosure are details of key management personnel compensation These details are set out in the table below

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

	2007 £m	2006 £m
Short term employment benefits	**3 0**	3 1
Post employment benefits	**0 1**	0 1
Share based payments	**1 8**	1 1
	4 9	4 3

Gains on share options exercised in the year by key management personnel totalled £11.3m (2006 £1 2m)

Independent auditors' report to the members of The Capita Group Plc

We have audited the Group financial statements of The Capita Group Plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement and the consolidated statement of recognised income and expense and the related notes 1 to 33 These consolidated financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of The Capita Group Plc for the year ended 31 December 2007 and on the information in the Directors' remuneration report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 the 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 Group financial statements The other information comprises only the Directors' report, the Business review, the corporate governance statement and the five year summary We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, 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 Group financial statements 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 Group financial statements

Opinion
In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and
- the information given in the Directors' report is consistent with the Group financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

28 February 2008

Five year summary

for the years ended 31 December

Group balance sheet	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
		Reported under IFRS			Reported under UK GAAP
Non-current assets	**1,032.5**	862.5	783.5	668.2	562.9
Current assets	**458.1**	404.6	343.8	260.3	248.7
	1,490.6	1,267.1	1,127.3	928.5	811.6
Liabilities	**(1,156.2)**	(939.6)	(726.4)	(562.7)	(452.0)
Provision for liabilities and charges	**(2.6)**	(1.7)	(3.3)	(5.5)	(17.4)
	331.8	325.8	397.6	360.3	342.2
Capital and reserves	**331.8**	325.7	397.4	359.9	342.1
Minority interests	**–**	0.1	0.2	0.4	0.1
	331.8	325.8	397.6	360.3	342.2
Group income statement					
Turnover	**2,073.3**	1,738.5	1,435.5	1,282.2	1,080.6
Profit before interest and intangible amortisation	**271.3**	225.1	183.1	155.8	131.4
Other operating income	**1.2**	–	–	–	–
Net interest payable	**(34.1)**	(25.0)	(13.5)	(11.9)	(10.2)
Profit before taxation and intangible amortisation	**238.4**	200.1	169.6	143.9	121.2
Intangible amortisation	**(9.7)**	(6.9)	(4.5)	(1.8)	(27.7)
Impairment	**–**	–	(12.0)	–	–
Discontinued operations	**–**	–	–	(2.2)	–
Taxation	**(62.5)**	(53.5)	(45.8)	(39.4)	(34.1)
Minority interests	**–**	0.1	0.2	0.2	(0.1)
Profit after taxation	**166.2**	139.8	107.5	100.7	59.3
Basic earnings per share (excluding impairment and amortisation)	**28.10p**	23.10p	18.60p	15.37p	13.04p
Basic earnings per share (including impairment and amortisation)	**27.09p**	22.32p	16.28p	15.13p	8.89p
Diluted earnings per share (excluding impairment and amortisation)	**27.63p**	22.56p	18.33p	15.24p	12.95p
Diluted earnings per share (including impairment and amortisation)	**26.64p**	21.80p	16.05p	15.00p	8.83p
Special dividend	**25.00p**	–	–	–	–
Dividend per ordinary share	**12.00p**	9.00p	7.00p	5.35p	4.00p

Company balance sheet

at 31 December 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	5	19.3	17.5
Investments	7	372 1	293 7
Financial assets	6	4 7	–
		396 1	311 2
Current assets			
Trade investments	7	0 1	0 1
Financial assets	6	0 9	–
Debtors due within 1 year	8	873 8	586 7
Debtors due after more than 1 year	8	0 8	1 0
		875 6	587 8
Creditors amounts falling due within 1 year	9	97 9	92 6
Net current assets		777 7	495 2
Creditors: amounts falling due after more than 1 year	9	378 5	378 6
Provisions for liabilities and charges	10	–	1 4
		795 3	426 4
Capital and reserves			
Called up share capital	11	12 6	12 3
Treasury shares	11	–	–
Share premium account	12	374 9	308 1
Capital redemption reserve	12	1 8	1 7
Merger reserve	12	44 6	44 6
Profit and loss account	12	361 4	59 7
		795 3	426 4

The accounts were approved by the Board of Directors on 28 February 2008 and signed on its behalf by

P R M Pindar
Chief Executive

G M Hurst
Group Finance Director

Notes to the accounts

for the year ended 31 December 2007

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 with the following new Financial Reporting Standards and Urgent Issues Task Force abstracts issued by the UK Accounting Standards Board Adoption of these standards did not have any effect on the financial position of the Company although they did give rise to additional disclosures.

Amendment to FRS 26 (IAS39) Financial Instruments. Measurement. Recognition and Derecognition

This amendment has the aim of keeping the text of the UK Standard in line with that of the International Standard IAS 39 and is effective for accounting periods beginning on or after 1 January 2007

Amendment to FRS 17 Retirement Benefits

The Company has elected to early adopt this amendment which has the effect of replacing the existing disclosure requirements of FRS 17 with those of International Standard IAS 19 'Employee Benefits' and is effective for accounting periods beginning on or after 6 April 2007

FRS 29 (IFRS 7) Financial Instruments. Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the company's financial instruments and the nature and extent of risks arising from those financial instruments. As FRS 29 is a disclosure standard, there is no impact of that change in accounting policy on the Company's financial position The Company has taken advantage of the exemption allowed by paragraph 2D (b) of FRS 29 not to make these disclosures in its own entity's financial statements as the consolidated financial statements include the required disclosures for the Group

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

(b) Tangible fixed assets

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

Computer equipment	3 – 10 years
Furniture, fixtures and equipment	4 – 5 years
Leasehold improvements	over the period of the lease

(c) 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 asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

(d) Pension schemes

The Company maintains a number of contracted-out defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due These schemes are funded and the payment of contributions is made to separately administered trust funds The assets of these schemes are held separately from the Company The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking of the Company, which pays the Group liability centrally Any unpaid contributions at the year end have been accrued in the accounts of that company

(e) Leasing commitments

Assets obtained under finance leases 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

(f) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, taxation, with the following exceptions

- provision is made for taxation on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to taxation only where the replacement assets are sold
- provision is made for deferred taxation that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred taxation is measured on an undiscounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date

1 Accounting policies (continued)

(g) Foreign currencies

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.

(h) 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

(i) Financial instruments. disclosure and presentation

A separate note dealing with the disclosures of FRS 29 has not been presented as provided by paragraph 2D (b) of FRS 29 The consolidated financial statements include the required disclosures of IFRS 7 for the Group

(j) Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations Such derivative financial instruments are stated at fair value The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction

In relation to fair value hedges (e g fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the profit and loss account. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects the profit and loss account, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit and loss account.

(k) Share based payments

The Company operates a number of executive and employee share schemes

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity

Subsidiary undertakings of the Company reimburse the Company through the inter company account for charges attributable to their employees participating in the Company's share schemes.

Notes to the accounts

2 Deferred taxation

	2007 £m	2006 £m
The deferred taxation included in the balance sheet is as follows.		
Accelerated capital allowances included in provisions and liabilities for charges	-	(1 4)
Accelerated capital allowances	(1 8)	
Share based payments	3 6	
Cash flow hedges	(1 6)	
Included in debtors note 8	0.2	

3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £550.3m (2006 £197 1m)

4 Dividends

	2007 £m	2006 £m
Declared and paid during the year		
Ordinary shares (equity)		
Final for 2006 paid 6 3p per share (2005 4 9p per share)	39 2	31 1
Interim for 2007 paid 4 0p per share (2006 2 7p per share)	24 7	16 6
Special dividend for 2007 paid 25 0p per share (2006 nil p per share)	154 7	-
	218 6	47 7
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity)		
Final for 2007 8 0p per share (2006 6 3p per share)	48 7	38 9

5 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2007	22 9	0 6	2 1	25 6
Additions	3 4	0.2	0 5	4 1
31 December 2007	26 3	0 8	2 6	29 7
Depreciation				
1 January 2007	6 3	0 4	1 4	8 1
Charge for year	2 0	0 1	0.2	2 3
31 December 2007	8 3	0 5	1 6	10 4
Net book value at				
1 January 2007	16 6	0 2	0 7	17 5
31 December 2007	18 0	0 3	1 0	19.3

6 Financial assets

Current	2007 £m	2006 £m
Cash flow hedges	0 9	–
	0 9	–

	2007 £m	2006 £m
Non-current		
Cash flow hedges	4 7	–
	4 7	–

7 Investments

(a) Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2007	293 7
Additions	78 4
31 December 2007	372 1

During the year the Company completed intragroup transfers as follows. It acquired Capita IRG Trustees Limited from Capita Registrars Limited (formerly Capita IRG Plc) and Capita Financial Nominees Limited (formerly ACD Services Limited) from Capita Financial Group Limited These transfers took place at net book value and were settled by cash for an aggregate consideration of £3 3m

During the year the Company incorporated Capita Registrars (Isle of Man) Limited In addition the company increased its investment in Capita Life & Pensions Regulated Services Limited by making a capital contribution of £24m

The Company made the following acquisitions during the year for a combined consideration of £51 1m Evolvi Rail Systems Limited (formerly Harry Weeks Travel & Leisure Group Limited), Capita Financial Administrators (Gibraltar) Limited (formerly Global Fund Administration Limited), Capita Hartshead Solutions Limited (formerly Higham Dunnet Shaw Plc) and Capita Hartshead (Actuaries & Pension Consultants) Limited (formerly Aspen (Actuaries & Pension Consultants) Limited))

Principal investments	Country of registration and operation	Proportion of nominal value of issued shares held by the company	Description of shares held
Capita Holdings Limited	England	100%	Ordinary £1 shares
Capita Business Services Limited*	England	100%	Ordinary 1p shares
Capita Trust Company Limited	England	100%	Ordinary £1 shares
Capita Commercial Services Limited*	England	100%	Ordinary £1 shares
BDML Connect Limited*	England	100%	Ordinary £1 shares
Capita Registrars Limited* (formerly Capita IRG Plc)	England	100%	Ordinary £1 shares
Capita Resourcing Limited*	England	100%	Ordinary £1 shares
Capita Symonds Limited*	England	100%	Ordinary £1 shares
Capita Life & Pensions Limited	England	100%	Ordinary £1 shares
Capita Life & Pensions Regulated Services Limited	England	100%	Ordinary £1 shares
Evolvi Rail Systems Limited (formerly Harry Weeks Travel & Leisure Group Limited)	England	100%	Ordinary £1 shares
Service Birmingham Limited*	England	100%	Ordinary £1 shares

*Indirectly held

The activities of The Capita Group Plc undertakings are given on page 114

(b) Trade investments

	£m
At 1 January 2007 and 31 December 2007	0 1

Notes to the accounts

8 Debtors

Debtors due within 1 year	2007 £m	2006 £m
Amounts owed by subsidiary undertakings	812 9	536 0
Taxation recoverable	58.2	46 5
Other taxes and social security	0 4	0 8
Other debtors	0 6	1 7
Prepayments and accrued income	1 7	1 7
	873 8	586 7

Debtors due beyond 1 year	2007 £m	2006 £m
Prepayments and accrued income	0.5	1 0
Deferred taxation	0 2	–
Interest rate swap	0 1	–
	0 8	1 0

9 Creditors

Amounts falling due within 1 year	2007 £m	2006 £m
Bank overdraft	82 5	57 4
Trade creditors	0 6	2 0
Other creditors	0 3	0 2
Unsecured loan notes	–	22 2
Accruals and deferred income	14.5	10 8
	97 9	92 6

Amounts falling due after more than 1 year	2007 £m	2006 £m
Bonds	357 5	372 0
Currency swap	20 8	6 4
Other creditors	0.2	0 2
	378 5	378 6

The bank overdraft and the bonds are unsecured

10 Provisions for liabilities and charges

Deferred taxation	£m
At 1 January 2007	1 4
New provisions in the year	(1 6)
At 31 December 2007 – included in debtors note 8	(0 2)

11 Share capital

	2007 million	2006 million	2007 £m	2006 £m
Authorised				
Ordinary shares of 2 1/15p (2006 ordinary shares of 2p each)	**967 7**	1,000 0	**20 0**	20 0
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each (pre 14 September 2007 ordinary shares of 2p each)				
At 1 January – ordinary shares of 2p each	**617 6**	671 0	**12.3**	13 4
Shares repurchased – ordinary shares of 2p each	**(6 6)**	(52 9)	**(0 1)**	(1 1)
Issued on exercise of share options – ordinary shares of 2p each	**7 9**	16 4	**0 2**	0 4
Reduction in issued shares on consolidation – see below	**(20 0)**	–	–	–
Issued on exercise of share options – ordinary shares of 2 1/15p each	**10 1**	–	**0.2**	–
Treasury shares cancelled – ordinary shares of 2 1/15p each (2006 2p each)	–	(16 9)	–	(0 4)
At 31 December ordinary shares of 2 1/15p (2006 ordinary shares of 2p each)	**609 0**	617 6	**12 6**	12 3

In September 2007, the Company, by ordinary resolution, approved a share consolidation whereby shareholders on the register on 14 September 2007 exchanged 31 existing ordinary shares of 2p for 30 new ordinary shares of 2 1/15p each The effect of the share consolidation was to reduce the authorised share capital of the Company to 967,741,920 ordinary shares of 2 1/15p each and to reduce the number of shares in issue by 20m

During the year the Company repurchased 6 6m ordinary 2p shares with an aggregate nominal value of £0 1m at a total cost of £43 6m for which it paid cash at an average cost per share of £6 66 These shares were cancelled

During the year 7 9m ordinary 2p shares with an aggregate nominal value of £0 2m were issued under share option schemes for a total consideration of £29 5m

In addition, 10 1m ordinary 2 1/15p shares with an aggregate nominal value of £0 2m were issued under share option schemes for a total consideration of £37 7m

Treasury shares

	2007 million	2006 million	2007 £m	2006 £m
Ordinary shares of 2 1/15p each (2006 2p each)				
At 1 January	–	16 9	–	0 4
Shares cancelled – ordinary shares of 2p each	–	(16 9)	–	(0 4)
Shares repurchased – 41,163 ordinary 2 1/15p shares	–	–	–	–
At 31 December – ordinary shares of 2 1/15p each (2006 2p each)	–	–	–	–

During the year the Company repurchased 41,163 ordinary 2 1/15p shares with an aggregate nominal value of £851 to be held in treasury for which it paid cash The weighted average cost of each share was £6 61 and the total consideration for these shares was £272,219

The Company has an unexpired authority to repurchase up to 10% of its issued share capital.

12 Reserves

Company	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Treasury shares £m	Profit and loss account £m
At 1 January 2007	308 1	1 7	44 6	–	59 7
Shares issued	**66 8**	–	–	–	–
Share transaction costs	–	–	–	–	**(0 5)**
Share repurchase and cancellation	–	**0 1**	–	–	**(43 6)**
Treasury shares purchased	–	–	–	–	**(0.3)**
Share based payment	–	–	–	–	**14 4**
Equity dividends paid	–	–	–	–	**(218 6)**
Retained profit for the year	–	–	–	–	**550.3**
At 31 December 2007	**374 9**	**1 8**	**44 6**	–	**361 4**

Between October 2005 and March 2007, the Company sought to repurchase 61 8m of its own shares for an aggregate consideration of £289 0m Although the Company had sufficient reserves to make these purchases at each transaction date, interim accounts (as defined in the Companies Act 1985) showing the requisite level of distributable profits had inadvertently not been filed with the Registrar of Companies, as required by the Companies Act 1985 As a result of this technical infringement, the repurchase and cancellation of 36 8m shares, equating to £175 4m was invalid This situation was rectified during the year with no net impact on share capital, capital redemption reserve and retained earnings

Notes to the accounts

13 Reconciliation of movements in shareholders' funds

	2007 £m	2006 £m
Profit for the year	550 3	197 1
Dividends	(218 6)	(47 7)
	331 7	149 4
Share based payment	14 4	8 5
Shares issued	67.2	50 4
Share transaction costs	(0.5)	(1 2)
Shares purchased	(43 9)	(244 9)
Net movement in shareholders' funds	368 9	(37 8)
Opening shareholders' funds	426 4	464.2
Closing shareholders' funds	795 3	426 4

14 Commitments and contingent liabilities

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

	2007		2006	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire				
In 2 to 5 years inclusive	–	0 5	–	0 4
Over 5 years from the balance sheet date	1 6	–	1 6	–
	1 6	0 5	1 6	0 4

(b) The Company has guaranteed overdraft and loan facilities of Group undertakings amounting to £260 0m (2006 £205 0m)

15 Borrowings

	2007 £m	2006 £m
Bank overdraft payable on demand	82 5	57 4
Loan notes	–	22 2
Bonds	378 2	378 4
	460 7	458 0
Repayments fall due as follows		
Within 1 year		
Bank overdraft	82 5	57 4
Loan notes	–	22 2
	82 5	79 6
After more than 1 year		
In more than 1 year but not more than 2 years	100.2	–
In more than 2 years but not more than 5 years	24 7	100.2
In more than 5 years	253.3	278 2
	378 2	378 4
Total borrowings and finance leases	460 7	458 0

Loan notes were issued in previous years pursuant to the satisfaction of consideration due in relation to the acquisition of a subsidiary undertakings
Loan notes issued during the year amounted to £5 9m (2006 £nil)

15 Borrowings (continued)

The Company has issued guaranteed unsecured bonds as follows

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2002				
Series B	6 44	GBP*	55 0	20 June 2009
Issued 2005				
Series A	0 525 above 6m LIBOR	GBP	50 0	28 September 2013
Series B	0 525 above 6m LIBOR	GBP	25 0	28 September 2015
Total of sterling denominated bonds			130 0	

			US$m	
Issued 2002				
Series A	6 10	US$**	66 0	20 June 2009
Series C	6 47	US$**	36 0	20 June 2012
Issued 2006				
Series A	5 74	US$**	60 0	28 June 2013
Series B	5 88	US$**	130 0	28 June 2016
Series A	5 66	US$**	11 0	13 September 2013
Series B	5 81	US$**	74 0	13 September 2016
Series C	5 77	US$**	60 0	13 September 2016
Total of US$ denominated bonds			437 0 (GBP 248 2m)	

All series are unsecured

*The Company has entered into an interest rate swap to convert the interest cost based on 6 month LIBOR.
**The Company has entered into currency swaps for the US$ issues to achieve a floating rate of interest based on 6 month LIBOR. Further disclosure on the Company's use of hedges is included in note 25 commencing on page 89

16 Related party transactions

There were no related party transactions that require disclosure in the year

17 Pension costs

The Company operates a defined contribution scheme

The pension charge for the defined contribution scheme for the year was £1 2m (2006 £0 7m)

Notes to the accounts

18 Share based payment

The Company operates several share based payment plans as follows.

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report) and Matching Shares The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares The Deferred Shares are held for a period of three years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 1 5 Matching Shares for every Deferred Share Matching Shares will vest after the three year holding period to the extent to which performance conditions have been met. 33 3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition

Long Term Indexed Share Appreciation Scheme (LTISAS)

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with two equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006 The exercise price of the option was restated, in line with the FTSE All Share Index from the date of grant to 25 November 2007 The restated exercise prices were £3 48 for the 2002 award and £4 74 for the 2004 award This feature ensured that participants only gained if the share price out-performed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets as follows

As growth in the Company's EPS over the three year period to 31 December 2006 exceeded RPI growth by 17 6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards will be made under this plan

1997 Executive Share Option Scheme

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the three year vesting period from the date of grant. The contractual life of each option granted is seven years There are no cash settlement alternatives

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees Under this scheme, employees are granted share options at a discount to the market price at the date of grant The discount is currently nil (2006 nil, 2005 10% and 20% prior to 2005) The options become exercisable for a six month period following completion of a three or five year savings period There are no performance conditions attached to these options

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2007 was £8 6m (2006 £8 5m), all of which arises from equity-settled share based payment transactions The total Company expense, after recharging subsidiary undertakings, charged to the profit and loss account in respect of FRS 20 'Share based payment' was £2 8m (2006 £2 6m)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan and LTISAS)

	2007 Number	2007 WAEP	2006 Number	2006 WAEP
Outstanding as at 1 January	**28,907,177**	**£3 65**	42,679,159	£3 29
Granted during the year	**5,478,529**	**£6 89**	5,240,564	£4 72
Exercised	**(10,776,015)**	**£3 54**	(16,214,092)	£3 12
Forfeited	**(2,792,080)**	**£3 91**	(2,458,650)	£2 78
Expired during the year	**(162,278)**	**£4 07**	(339,804)	£3 38
Outstanding as at 31 December[1]	**20,655,333**	**£4 54**	28,907,177	£3 65
Exercisable at 31 December	**4,829,267**	**£3 45**	11,859,421	£3 95

[1]Included within this balance are options over 6 418 161 (2006 11,012,567) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

18 Share based payment (continued)
The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7 03 (2006 £4 97)

As noted above under the LTISAS scheme two tranches of 600,000 share options have been issued to each participant in the scheme Both were deemed to have been granted in November 2002 The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2 16 The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3 51 Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4 11 During the year, 7,200,000 share options under this scheme were exercised at a weighted average exercise price of £4 01, thus the total number of options outstanding under this scheme was 3,493,333 at 31 December 2007 (2006 10,693,333) The weighted average exercise price of these exercisable share options at 31 December 2007 was £4 32

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1 5m (2006 £1 5m) The matching shares allocation in respect of the 2006 awards under this plan charged in 2007 was £0 6m

The weighted average fair value of options granted during the year was £1 11 (2006 £1 00) The range of exercise prices for all options outstanding at the end of the year was £1 88 to £7 33 (2006 £0 71 to £5 35)

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted The following table lists the inputs to the model used for the years ended 31 December 2007 and 31 December 2006

	2007	2006
Dividend yield (%)	1 5	1 5
Expected share price volatility (%)	19 00	24 76
Risk free interest rate (%)	4 97	4 5
Expected life of option (years)	3 62	4 43
Weighted average share price of options granted during the year	£6 89	£4 72

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome No other features of options grant were incorporated into the measurement of fair value

Principal Group investments

Capita Business Services
Providing an integrated range of business process outsourcing and professional services to clients in the UK and Ireland

Capita Commercial Services
Market leader in providing outsourced administration and support services to the general insurance sector and affinity partnerships.

Capita Symonds
Providing a comprehensive range of project management, telecommunications engineering and construction related consultancy services

Capita Registrars (formerly Capita IRG)
Share registration and employee share scheme administration services.

Capita Trust Company
Corporate trustees and providers of trust and administration services

Capita Life & Pensions
Administration and customer services for life and pensions operations.

Capita Life & Pensions Regulated Services
Administration and customer services for life and pensions regulated operations

Service Birmingham
Joint venture set up to support Birmingham City Council's transformation plan

Capita Resourcing
Employee recruitment services.

Evolvi Rail Systems Limited (formerly Harry Weeks Travel & Leisure Group Limited)
Business travel software provider

CMGL Group Limited
A leading provider of outsourced claims and insurance management services

Independent auditors' report to the members of The Capita Group Plc

We have audited the parent company financial statements of The Capita Group Plc for the year ended 31 December 2007 which comprise the Company balance sheet and the related notes 1 to 18 These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited

We have reported separately on the Group financial statements of The Capita Group Plc for the year ended 31 December 2007

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the parent company Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the business review and the five year summary We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company'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 parent company financial statements and the part of the Directors' remuneration report to be audited 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 parent company financial statements and the part of the Directors' remuneration report to be audited

Opinion
In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered Auditor
London

28 February 2008

Useful information for shareholders

Shareholder enquiries
Shareholders who have questions relating to the Group's business or wish to receive further copies of annual or interim reports should contact Capita's investor relations team on 020 7799 1525 or email corporate@capita co uk.

If you have any queries about your shareholding please contact the Company's registrar, Capita Registrars, at the address below

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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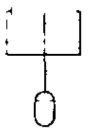

e-communications for shareholders
Help us communicate with you in a greener, more efficient and cost effective way by switching from postal to email communications Shareholders can receive important information online, including annual and interim reports and notice of meetings Registering for e-communications also enables shareholders to

- obtain secure online access to personal shareholding details
- submit queries to our registrars, download forms and obtain general shareholder information
- update shareholding account online

To register for e-communications, visit www capita co uk/investorcentre/ecomms

The legislation regarding electronic shareholder communications has now changed and we will be writing to you shortly to explain how this can enhance the way we communicate with you

For every shareholder that registers for e-communications we have pledged to donate £1 to Climate Care For further details visit www climatecare org

Share dealing
A quick and easy share dealing service is now available for existing Capita shareholders to either sell or buy more Capita Group shares online or by telephone

For further information on this service or to buy and sell Capita shares online go to

www capitadeal.com
or by telephone
0871 664 0454

Dividend reinvestment plan (DRIP)
We offer a DRIP to enable shareholders to purchase additional Capita shares with their whole cash dividend These further shares would be bought in the market on behalf of shareholders under a special low-cost dealing arrangement Further details of the DRIP can be found online Please visit the shareholder services section at www capita co uk/investorcentre or call Capita Registrars on 0871 664 0300

Financial calendar
Annual General Meeting
6 May 2008

Final Dividend payment
9 May 2008

Interim results
24 July 2008

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