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 2006. In accordance with the requirements the report provides the disclosure in 2 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, Peter Cawdron and Bill Grimsey. Martina King replaced Eric Walters as Chairman of the Committee following his appointment as Non-Executive Chairman of the Board on 1 August 2006. Bill Grimsey was appointed a member of the Committee with effect from 9 October 2006. The Committee met 3 times during the year and all members attended each meeting.

The Committee consults the Chief Executive about proposals for remuneration of the Executive Directors and other senior executives, except when issues relating to his own remuneration are discussed. In 2004, KPMG (UK) LLP (KPMG) was appointed as advisers by the Committee to provide independent advice on executive remuneration and the structure of share schemes and they acted in this capacity throughout 2006. KPMG has 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.

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.

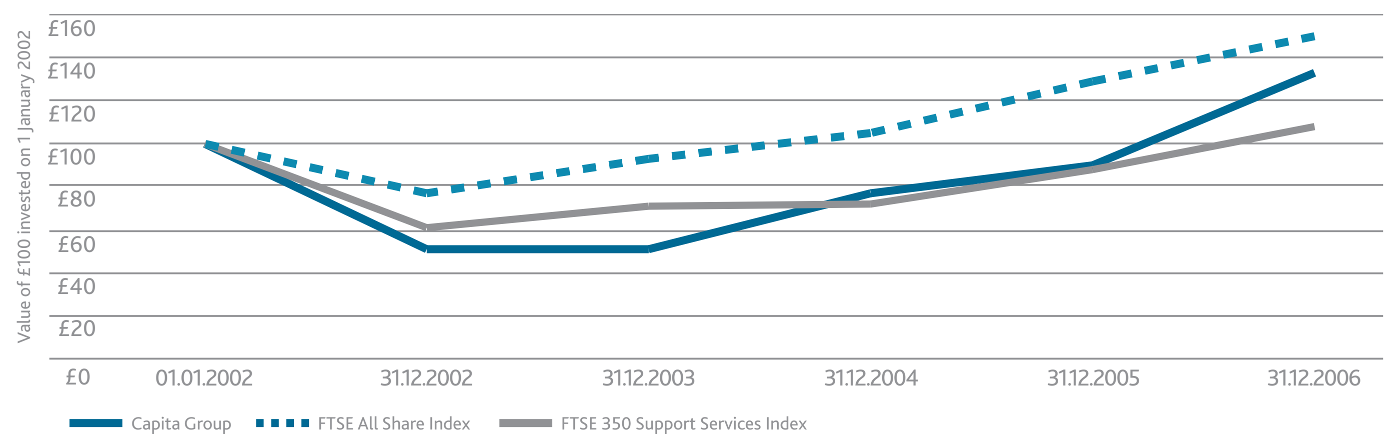
The overall package is weighted towards share-based incentives which the Committee strongly believes links the interests of the Executive Directors with those of shareholders in respect of shareholder value. The Committee is satisfied that the remuneration policy is appropriate, particularly with regard 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 remuneration package for the Executive Directors consists of salary, annual bonus, long term incentives, pension and other benefits.

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 5 years starting 1 January 2002 and ending 31 December 2006 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 2002.



Source: KPMG and Datastream

A £100 investment in Capita shares on 1 January 2002 would be worth £133 at 31 December 2006 compared to £150 for an investment in the FTSE All Share Index and £108 for an investment in the FTSE 350 Support Services Index.

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.

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.

For 2006 this resulted in a cash element payable of £734,823 with the remainder of the performance related bonus being awarded in deferred shares. The number of shares awarded is determined within 42 days of 22 February 2007, the date of the announcement of the Group's results for 2006.

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.

The first awards under the DAB were made in 2006, in respect of the 2005 financial year, amounting to 204,554 shares being awarded at a price of £4.55 per share (market price of a Capita share on 3 April 2006).

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 3 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 3 year holding period to the extent to which performance criteria have been met. No grant of Matching Shares have been made in the year.

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). 33.3% of the Matching Shares will vest if growth in the company's EPS over a 3 year period is equal to RPI growth 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 Committee believes that long term EPS growth is the most appropriate performance condition for Capita as it is a key indicator of shareholder value creation.

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 64-65) 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 2 equal tranches of 600,000 options. The criteria were the same for each of these issues and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the options moves in line with the FTSE All Share Index from the date of grant to 25 November 2007. This feature ensures that participants only gain if the share price out-performs the index. The final option price at which the awards can be exercised cannot be below the market value of the share at the date of grant.

Options became exercisable, over the performance period, subject to the growth in the company's EPS exceeding certain targets as follows: 25% of the options vesting if growth in the company's EPS exceeded RPI growth by 8% per annum, rising on a straight-line basis to 100% vesting if growth in the company's EPS exceeded growth in the RPI by 12% per annum. As growth in the company's EPS over the 3 year period to 31 December 2006 exceeded RPI growth by 17.6%, 100% of the options have vested (representing 1,200,000 shares per participant with the exception of Rod Aldridge who received 1,093,333) and will become exercisable from 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) Long-term Incentive Plan (LTIP)

Awards under the LTIP were structured either as Restricted Share Awards or Indexed Performance Share Appreciation Rights.

The last Restricted Share Awards and awards of IPSARs vested in full in May 2001 and May 2003 respectively. No further awards have been made under the LTIP.

Directors' remuneration report

Restricted share awards
Restricted Share Awards were designed to deliver shares to participants 3 years after the date of award. They would have been released if the company was ranked at or above the median in a comparator group selected from the support services sector. 5% of the awards would have been released at the 49th percentile, 50% at the 40th percentile and 100% at the 25th percentile or above. If the company's Total Shareholder Return (TSR) had been below the median at the end of the performance period, the Restricted Share Awards would have lapsed. In addition, no shares would have been released if the growth in the company's EPS had not exceeded the growth in RPI over the 3 year performance period.

Indexed performance share appreciation rights (IPSARs)
Only 1 award of IPSARs was made to participants under the LTIP and participation was limited to the Executive Directors. Such appreciation rights were designed like share options except that the exercise price to be paid by the participants increased pro rata to the FTSE All Share Index.

IPSARs became exercisable 5 years after the awards were granted, subject to the company's TSR ranking relative to the comparator group of companies. If the company's TSR had been at the upper quartile level, 40% of the IPSARs would have vested. For 100% of the awards to have vested the company's TSR had to be at the 10th percentile or better within the comparator group. If the company's TSR ranking had been below the upper quartile, the IPSARs would have lapsed. In addition no IPSARs would have been exercisable if growth in the company's EPS had not exceeded the growth in RPI over the 5 year performance period.

g) Share option schemes
The Group has 2 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 Scheme currently become exercisable if the growth in the company's EPS exceeds growth in RPI by 8% over the 3 year period from the date of grant. Following shareholder approval at the 2006 AGM, the 1997 Scheme, due to expire early in 2007, was renewed for a period of 10 years.

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

i) Service contracts
The service contracts for Group Board Executive Directors are for an indefinite period and provide for a 1 year notice period. They do not include provisions for pre-determined compensation on termination that exceed 1 year's salary and benefits.

All Directors are appointed for an indefinite period but are subject to re-election at the Annual General Meeting every 3 years.

Details of the contracts are set out below:

Executive Directors	Date of contract	Notice period	Date of leaving
Rod Aldridge[1]	11.04.1989	12 months	31.07.2006
Paul Pindar	11.04.1989	12 months	–
Paddy Doyle	10.01.1996	12 months	–
Gordon Hurst	02.01.1990	12 months	–
Simon Pilling[2]	26.07.1999	12 months	–

[1] Rod Aldridge stepped down from his role as Executive Chairman on 23 March 2006 to become Non-Executive Chairman until his retirement from the company on 31 July 2006.
[2] Simon Pilling was appointed to the Group Board on 1 August 2006.

Non-Executive Directors	Date of appointment	Date of leaving
Peter Cawdron	01.09.1997	–
Eric Walters[1]	31.10.2000	–
Martina King	01.01.2005	–
Bill Grimsey	09.10.2006	–

[1] Eric Walters was appointed as Non-Executive Chairman on 1 August 2006.

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

	2006 £000s	2005 £000s
Basic salaries	**1,151**	1,063
Compensation	**356**	–
Benefits	**109**	99
Annual bonus	**1,615**	1,609
Pension contributions to the Group's defined contribution scheme	**187**	154
Fees	**137**	90
Total	**3,555**	3,015

Details of Group Board Directors' remuneration are as follows:

	Salary and fees £	Compensation £	Benefits £	Performance related bonus*** £	Total 2006 £	Total 2005 £	Pension 2006** £	Pension 2005** £
Rod Aldridge	207,731	356,110	33,686	145,412	**386,829**	855,156	**28,177**	16,558
Paul Pindar	337,370	–	26,987	472,318	**836,675**	798,629	**16,869**	15,690
Paddy Doyle	217,013	–	20,461	375,074	**612,548**	581,974	**77,871**	69,789
Gordon Hurst	206,550	–	17,019	339,570	**563,139**	535,096	**45,668**	51,783
Simon Pilling	181,917	–	10,851	282,683	**475,451**	–	**18,912**	–
Peter Cawdron*	34,000	–	–	–	**34,000**	30,000	**–**	–
Eric Walters*	60,333	–	–	–	**60,333**	30,000	**–**	–
Martina King*	34,000	–	–	–	**34,000**	30,000	**–**	–
Bill Grimsey*	8,788	–	–	–	**8,788**	–		–

*Non-Executive Directors
**Pension contributions to the Group's defined contribution scheme. In addition, by way of salary sacrifice, the base salaries of Gordon Hurst, Paddy Doyle and Simon Pilling have been reduced by £36,000 (2005:£36,000), £50,807 (2005:£50,897) and £20,000 (2005: £20,000) respectively and paid into separate defined contribution schemes.
***The sum disclosed above represents the total value of the performance related bonus. 50% will be paid in cash and the remainder will be settled through the issue of deferred shares as explained in d) on page 75.

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

Options were granted under the 1997 Scheme and consist of HMRC Approved and Unapproved share options. Options become exercisable if the growth in the company's EPS exceeds the growth in the RPI by 8% over the 3 year period from the date of grant. Since May 2002, the Directors became ineligible for further awards under this scheme.

The Directors' interests in the 1997 Scheme are listed below:

	Exercise price £	At 1 January 2006	Granted in the year	Exercised in the year	At 31 December 2006	Exercisable between*
Rod Aldridge	0.71	225,000	–	–	**225,000**	25.02.2002 to 25.02.2007
	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
Paul Pindar	0.71	225,000	–	225,000	**–**	25.02.2002 to 25.02.2007
	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
Simon Pilling	4.36	75,000	–	75,000	**–**	22.05.2005 to 22.08.2009
	4.49	80,000	–	80,000	**–**	28.06.2004 to 28.06.2008
	4.54	50,000	–	50,000	**–**	26.02.2004 to 26.02.2008

*subject to performance

In 2006 the aggregate gain on the exercise of share options by Directors was £1.4million (2005: £nil).

The market value of an ordinary share of the company at 31 December 2006 was 611.0p, and the high and low values for the year were 619.0p and 413.3p respectively.

Interests in Capita Sharesave Scheme

	Exercise price £	At 1 January 2006	Granted in the year	Exercised in the year	At 31 December 2006	Exercisable between
Paddy Doyle	1.88	4,906	–	4,906	**–**	31.10.2006 to 30.04.2007
Paul Pindar	1.88	4,906	–	4,906	**–**	31.10.2006 to 30.04.2007
Gordon Hurst	1.88	8,430	–	–	**8,430**	31.10.2008 to 30.04.2009
Eric Walters*	3.90	4,326	–	4,326	**–**	31.10.2006 to 30.04.2007
Simon Pilling	1.88	4,906	–	4,906	**–**	31.10.2006 to 30.04.2007

* Non-Executive Director

The exercise prices quoted above are set at 80% of the market price at the date of grant. The options are exercisable in the period given above after having completed a 3 or 5 year savings period. There are no performance criteria to be satisfied under this scheme.

c) Shares awarded under the Long Term Indexed Share Appreciation Scheme

	At 1 January 2006	Date of award	Price at date of grant £	Option forfeited	At 31 December 2006	Exercisable between
Rod Aldridge	600,000	25.11.2002	2.16	40,000	**560,000**	25.11.2007 to 25.11.2012
	600,000	25.11.2004	3.51	66,667	**533,333**	25.11.2007 to 25.11.2012
Paul Pindar	600,000	25.11.2002	2.16	–	**600,000**	25.11.2007 to 25.11.2012
	600,000	25.11.2004	3.51	–	**600,000**	25.11.2007 to 25.11.2012
Paddy Doyle	600,000	25.11.2002	2.16	–	**600,000**	25.11.2007 to 25.11.2012
	600,000	25.11.2004	3.51	–	**600,000**	25.11.2007 to 25.11.2012
Gordon Hurst	600,000	25.11.2002	2.16	–	**600,000**	25.11.2007 to 25.11.2012
	600,000	25.11.2004	3.51	–	**600,000**	25.11.2007 to 25.11.2012
Simon Pilling	600,000	25.11.2002	2.16	–	**600,000**	25.11.2007 to 25.11.2012
	600,000	25.11.2004	3.51	–	**600,000**	25.11.2007 to 25.11.2012

The grant price for each tranche 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 increases in line with the FTSE All Share Index, measured from the date of grant to 25 November 2007.

Options became exercisable, if over the 3 year performance period to 31 December 2006, the growth in the company's EPS exceeded certain targets as follows: 25% of the options vest if growth in the company's EPS exceeded RPI growth by 8% per annum, rising on a straight-line basis to 100% vesting if growth in the company's EPS exceeded growth in the RPI by 12% per annum. As the Group met the performance criteria in full, 100% of the options vested on 31 December 2006 and become exercisable on 25 November 2007.

At 31 December 2006 the market price for a Capita share was 611p and the FTSE All Share Index stood at 3221 (25 November 2002 – 1980 and 25 November 2004 – 2367).

Rod Aldridge will retain his entitlement to 1,093,333 shares under the scheme, the exercise dates remaining as above.

d) Shares awarded under the Long Term Investment Plan

Restricted Share Awards

Restricted Share Awards were designed to deliver shares to participants 3 years after the date of award subject to the company's TSR ranking relative to a comparator group of companies and the growth in the company's EPS exceeding the growth in RPI over the 3 year performance period, as described on page 71.

The performance requirements were met in full on 4 May 2001.

Rod Aldridge has not exercised his right of transfer in respect of these shares and therefore has an entitlement to 279,069 shares. Had he exercised his right to transfer on 5 May 2001 when the shares vested, the share price would have been 509p and the gain would have been £1,420,461.

IPSARs

	Number of shares at 1 January 2006	Vesting date	Exercised in year	Number of shares at 31 December 2006	Latest exercise date
Rod Aldridge	1,200,000	05.05.2003	–	**1,200,000**	05.05.2008
Paul Pindar	1,200,000	05.05.2003	–	**1,200,000**	05.05.2008

IPSARs became exercisable 5 years after the awards were granted, subject to the company's TSR ranking relative to a comparator group of companies and the growth in the company's EPS exceeding the growth in RPI over the 5 year performance period. 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) 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.

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

Eric Walters
Non-Executive Chairman
21 February 2007

Martina King
Chairman Remuneration Committee
21 February 2007