

# Directors' report

The Directors present their report and the audited Group accounts for the year ended 31 December 2006.

## 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 9 chosen markets are local government, central government, education, health, transport, life & pensions, insurance, financial services and other private sector.

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 7 operating divisions comprising HR Solutions & Property Consultancy, Insurance & Specialist Services, Financial Services, ICT & Advisory Services, Life & Pensions, Professional Services and Integrated Services, plus a 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 9-61.

## Profits and dividends

The Group profit before taxation amounted to £193.2m (2005: £153.1m). The Directors recommend a final dividend of 6.3p per share (2005: 4.9p per share) to be paid on 4 May 2007 to ordinary shareholders on the register on 30 March 2007. This gives a total dividend for the year of 9.0p per share (2005: 7.0p per share).

## Share repurchase

The company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in April 2006 and during the year acquired 52.9 million (2005: 13.2 million) ordinary shares of 2p each (see note 25) all of which were cancelled. The shares acquired in previous years and held in treasury were cancelled and the company no longer has any holding of treasury shares.

## Directors

The Directors of the company currently in office are listed on pages 64-65.

Paul Pindar and Peter Cawdron retire by rotation and, being eligible, offer themselves for re-election. 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. Eric Walters was appointed as Non-Executive Chairman with effect from 1 August 2006. His other significant commitments are a partnership in Englefield Capital, a private equity firm, and Non-Executive directorships of a number of private companies. Simon Pilling was appointed as an Executive Director with effect from 1 August 2006 and offers himself for election. Bill Grimsey was appointed as a Non-Executive Director with effect from 9 October 2006 and offers himself for election. 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.

## Directors' interests

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

	31 December 2006 or date of appointment if later ordinary shares of 2p	31 December 2005 or date of appointment if later ordinary shares of 2p
Eric Walters	49,326	45,000
Paul Pindar	1,850,000	2,450,000
Paddy Doyle	26,979	26,664
Gordon Hurst	28,221	28,221
Simon Pilling	–	–
Peter Cawdron	24,000	24,000
Martina King	–	–
Bill Grimsey	12,616	–

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

The interests of the Directors under the share option schemes, the Deferred Annual Bonus Plan, the Long Term Incentive Plan and the Long Term Indexed Share Appreciation Scheme of the company are shown in the Directors' Remuneration Report.

## Substantial shareholders

On 21 February 2007 the company had notifications that the following were interested in 3% or more of the company's ordinary share capital:

	No. of shares	Percentage
FMR Corp and Fidelity International Ltd	73,884,499	11.65%
Baile Gifford & Co	41,000,378	6.64%
Legal & General Group Plc	22,109,521	3.58%

## 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 any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Directors' report

### Going concern

After making enquiries, the Group Board of Directors has a reasonable expectation that the Group and the company (The Capita Group Plc) 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. Capita 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, 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 our 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.

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 [P](#) pages 50-53.

### Payment of suppliers

The company aims to pay suppliers in accordance with the suppliers' contract terms. The company had an average of 43 days' purchases (2005: 44 days' purchases) outstanding in trade creditors.

### Charitable and political donations

During the year charitable donations amounted to £0.5m (2005: £0.4m). No political contributions were made.

### 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 and currency swaps, 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 and foreign currency risk. The Group borrows in desired 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. 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. The Group has exposure to foreign currency risk where it has limited investments in overseas operations which are affected by foreign exchange movements. The Group is not exposed to significant foreign currency risk nor does it intend to significantly increase its overseas operations, so only limited hedging of these exposures is executed.

### 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 AGM from 15 minutes before the meeting until it ends.

### Auditors

In accordance with section 384 of the Companies Act 1985, 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 Manager 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. 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.

By order of the Board

### Gordon Hurst

Company Secretary  
21 February 2007