Notes to the consolidated financial statements

for the year ended 31 December 2006

1 Corporate information

The consolidated financial statements of The Capita Group Plc for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Directors on 21 February 2007. 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 9-61.

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 for use in 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 114-121.

(b) Basis of preparation

The consolidated financial statements have been prepared under IFRS where certain financial instruments, separately identifiable intangibles acquired on business combinations 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 and cease to be consolidated from the date on which 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 and amended 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:

- IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease

The Group has also early adopted the following IFRS and IFRIC interpretations. Adoption of these standards and interpretations did not have any effect on the financial position of the Group. They did, however, give rise to additional disclosures:

- IAS 1 Amendment – Presentation of Financial Statements
- IFRIC 8 Scope of IFRS 2

The principal effects of these changes are as follows:

IAS 1 Amendment – Presentation of Financial Statements This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 24. The Group has elected to early adopt this amendment to IAS 1.

IAS 19 Amendment – Employee Benefits This amendment to IAS 19 is effective for accounting periods beginning on or after 1 January 2006 with earlier adoption encouraged. The amendment requires additional disclosures providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. The amendment also allowed the option of recognising all actuarial gains and losses outside of the income statement. The Group had early adopted this amendment in the year ended 31 December 2005; consequently there will be no further impact on the financial statements this year.

IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

IAS 39 Amendments – Financial Instruments: Recognition and Measurement *Amendment for Financial Guarantee Contracts* (issued August 2005) amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*. This amendment did not have any effect on the financial statements.

2 Summary of significant accounting policies (continued)

(d) Changes in accounting policies (continued)

Amendment for hedges of forecast intragroup transactions (issued April 2005) amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

IFRIC 4 Determining whether an Arrangement contains a Lease The Group adopted IFRIC Interpretation 4 as of 1 January 2006 which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the financial statements as at 31 December 2006 or 31 December 2005.

IFRIC 8 Scope of IFRS 2 The Group early adopted IFRIC Interpretation 8 as of 1 January 2006 which requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the Group's employee share schemes, the interpretation has had no impact on the financial position of the Group.

(e) Revenue

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).

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

(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 debtors 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 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.

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 shall be 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 its income statement is 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.

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 even if the related investment becomes impaired or the business is disposed of.

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 2005 or 2006. 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

(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.

2 Summary of significant accounting policies (continued)

(m) Investments and available for sale financial assets

All investments are initially recorded at the fair value of the consideration given including acquisition charges associated with the investment. Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Trade investments are recognised at fair value.

Available for sale financial assets are measured at the 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.

(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 3 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 the fair value of the consideration received net of issue costs associated with the borrowing.

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.

(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 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 3 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.

2 Summary of significant accounting policies (continued)

(t) Pension schemes (continued)

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 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 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. The Group does not currently hold any significant cash flow hedges.

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. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional provisions of IFRIC 4.

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.

(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.

2 Summary of significant accounting policies (continued)

(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 2005.

(y) New standards and interpretations not applied

During the year, 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 7	Financial Instruments: Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 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	2006 £m	2005 £m
Rendering of services		**1,649.9**	1,370.1
Construction contracts	20	**70.5**	47.3
Rental income from operating leases	22	**18.1**	18.1
Revenue		**1,738.5**	1,435.5
Finance revenue	8	**1.0**	0.4
Total revenue		**1,739.5**	1,435.9

4 Administrative expenses

Included in the middle column disclosed on the face of the consolidated income statement, against the line item administrative expenses, are the following:

	2006 £m	2005 £m
Intangible amortisation (see note 14)	6.9	4.5
Impairment (see note 15)	–	12.0
	6.9	16.5

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 44-49.

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. Revenues are attributed to geographic areas based on the location of the assets producing the revenues.

The tables below present revenue, result and certain asset and liability information for the Group's business segments for the years 2006 and 2005. All operations in 2006 are continuing.

During 2006 the Group changed the management reporting structure of its operations and therefore the disclosure below presents the information under the new structure. The comparatives have been restated accordingly.

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)	(0.9)	(2.2)	(0.9)	(0.9)	(0.4)	(1.2)	(0.2)	(6.9)
	17.5	11.9	29.1	30.6	45.7	24.7	21.5	37.2	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	54.3	203.7	160.1	25.1	28.4	39.4	39.8	630.0
	138.0	122.4	339.4	222.8	143.1	65.6	114.7	91.3	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	98.4	209.5	162.0	47.4	30.7	77.2	(9.7)	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	0.9	2.2	0.9	0.9	0.4	1.2	0.2	6.9

Unallocated assets include held for sale financial assets and cash in bank. Unallocated liabilities include overdrafts, lease obligations, loan notes, currency and interest rate swaps, bonds and the aggregate pension deficit.

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	**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**

Year ended 31 December 2005

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	216.5	200.7	271.4	99.4	287.0	191.0	117.1	190.1	1,573.2
Inter-segment revenue	(14.3)	(10.2)	(17.7)	(1.9)	(24.3)	(46.0)	(2.3)	(21.0)	(137.7)
Third party revenue	202.2	190.5	253.7	97.5	262.7	145.0	114.8	169.1	1,435.5
Segment result									
Result after depreciation	15.9	17.1	25.4	24.9	43.7	15.9	14.2	33.6	190.7
Share based payment	(0.9)	(1.0)	(1.3)	(0.5)	(1.9)	(0.6)	(0.6)	(0.8)	(7.6)
Intangible amortisation	(1.7)	(0.5)	(0.9)	(0.3)	(0.6)	–	(0.5)	–	(4.5)
Impairment charge	–	–	–	–	–	–	–	(12.0)	(12.0)
	13.3	15.6	23.2	24.1	41.2	15.3	13.1	20.8	166.6
Finance costs									(13.5)
Profit before tax and minority interests									153.1
Corporation taxation									(45.8)
Minority interests									0.2
Profit after tax and minority interests									107.5
Other segment information									
Assets by segment									
Assets	40.4	62.0	120.6	65.1	129.0	30.5	44.0	33.4	525.0
Intangible assets	79.2	52.6	201.0	140.2	25.6	20.9	40.3	28.9	588.7
	119.6	114.6	321.6	205.3	154.6	51.4	84.3	62.3	1,113.7
Liabilities	(22.1)	(26.6)	(122.1)	(56.3)	(106.1)	(8.8)	(21.2)	(80.3)	(443.5)
Net allocated assets/(liabilities)	97.5	88.0	199.5	149.0	48.5	42.6	63.1	(18.0)	670.2
Unallocated assets									13.6
Unallocated liabilities									(286.2)
Total net assets									397.6
Capital expenditure									
Tangible assets	1.8	4.1	5.3	1.8	14.0	2.9	15.1	4.7	49.7
Depreciation charge	3.1	2.2	3.2	1.7	11.3	4.1	2.6	3.5	31.7
Intangible assets	–	3.8	41.9	10.6	21.3	–	18.9	13.4	109.9
Intangible amortisation	1.7	0.5	0.9	0.3	0.6	–	0.5	–	4.5

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	1,542.3	30.8	1,573.1
Inter-segment revenue	(136.6)	(1.0)	(137.6)
Third party revenue	1,405.7	29.8	1,435.5
Other segment information			
Assets	485.0	14.7	499.7
Intangible assets	574.9	13.8	588.7
Unallocated assets	38.9	–	38.9
Total assets	1,098.8	28.5	1,127.3
Capital expenditure			
Tangible assets	46.3	3.4	49.7
Intangible assets	99.3	10.6	109.9

6 Operating profit

This is stated after charging/(crediting):

	Notes	2006 £m	2005 £m
Employee benefits expense	7	**749.9**	607.2
Amortisation of intangible assets (as shown in amortisation column)	14	**6.9**	4.5
Depreciation	13	**42.2**	31.7
Loss on sale of property, plant and equipment		**0.3**	0.5
Amortisation of other intangible assets (treated as depreciation)*	14	**1.2**	4.9
Minimum lease payments recognised as an operating lease expense		**63.6**	59.6
Foreign exchange differences		**0.7**	(0.1)

*Included within operating activities before impairment and amortisation.

UK fees paid to the auditors include fees in relation to:	2006 £m	2005 £m
Audit of financial statements	**0.5**	0.6
Other UK fees:		
Local statutory audits for subsidiaries	**0.3**	0.2
Further assurance services	**0.1**	0.2
Taxation advisory services	**–**	0.1
Other non-audit services**	**0.1**	0.1
	1.0	1.2

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

There was due diligence work performed in respect of acquisitions which resulted in fees paid to auditors of £nil (2005: £0.3m). These amounts have been capitalised as part of the acquisitions to which they relate. In addition £0.7m (2005: £0.7m) was paid to accountancy firms other than the Group's auditor.

Notes to the consolidated financial statements

7 Employee benefits expense

	2006 £m	2005 £m
Wages and salaries	**645.2**	527.9
Social security costs	**63.1**	50.3
Other pension costs (see note 31)	**33.1**	21.4
Share based payments	**8.5**	7.6
	749.9	607.2

The average number of employees during the year was made up as follows:	2006 Number	2005 Number
Sales	**671**	588
Administration	**1,749**	1,412
Operations	**23,164**	21,431
	25,584	23,431

Details of Directors' remuneration are contained within the Directors' remuneration report on pages 71-75.

8 Finance revenue

	2006 £m	2005 £m
Bank interest receivable	**0.4**	0.4
Other interest receivable	**0.6**	–
Total finance revenue	**1.0**	0.4

9 Finance costs

	2006 £m	2005 £m
Loan note interest	**0.8**	0.9
Bonds	**15.5**	8.7
Bank loans and overdrafts	**9.5**	4.1
Other interest payable	**0.1**	–
Unwinding of interest on discounted property provision	**0.1**	0.2
Total finance costs	**26.0**	13.9

10 Income tax

The major components of income tax expense for the years ended 31 December 2006 and 2005 are:

Consolidated income statement	2006 £m	2005 £m
Current income tax		
Current income tax charge	**53.1**	43.1
Adjustment in respect of prior years	**(4.6)**	(1.0)
Deferred income tax		
Origination and reversal of temporary differences	**5.3**	6.9
Adjustment in respect of prior years	**(0.3)**	(3.2)
	53.5	45.8

Consolidated statement of recognised income and expense	2006 £m	2005 £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	**(7.6)**	–
Deferred income tax movement in relation to share based payments	**(7.2)**	(2.7)
Deferred income tax movement in relation to actuarial gains/(losses) on defined benefit plans	**3.8**	(1.0)
	(11.0)	(3.7)

Notes to the consolidated financial statements

10 Income tax (continued)

A reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2006 and 2005 is as follows:

	2006 £m	2005 £m
Accounting profit before tax	**193.2**	153.1
Notional charge at UK corporation tax rate of 30% (2005: 30%)	**58.0**	45.9
Adjustments in respect of current income tax of prior years	**(4.6)**	(1.0)
Adjustments in respect of deferred tax of prior years	**(0.3)**	(3.2)
Non-deductible expenses	**1.6**	1.5
Impairment	**–**	3.6
Attributable to lower tax rates in overseas jurisdictions	**(1.2)**	–
Stock option relief	**–**	(1.0)
At the effective tax rate of 27.7% (2005: 27.7% before impairment charge)	**53.5**	45.8
Total tax expense reported in the income statement	**53.5**	45.8

The tax charge for the year ended 31 December 2006 was £53.5m (2005: charge of £45.8m) and is after a prior year net credit of £4.6m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an underlying effective tax rate of 27.7% (2005: 27.7% before impairment). In addition, a net tax credit of £11.0m has been credited directly to equity including £7.6m in respect of realised stock option gains which resulted in a corresponding reduction in cash tax liabilities for the year ended 31 December 2006.

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2006 £m	2005 £m	2006 £m	2005 £m
Deferred tax liabilities				
Accelerated capital allowances	**(3.5)**	(3.0)	**0.9**	3.4
Fair value adjustments on acquisition	**(10.6)**	(10.0)	**(1.9)**	(1.2)
	(14.1)	(13.0)		
Deferred tax assets				
Share based payments	**20.7**	10.9	**(2.6)**	(2.1)
Pension schemes	**11.8**	20.4	**4.8**	5.2
Provisions	**3.4**	6.3	**3.3**	(2.3)
Losses available for offset against future taxable income	**0.3**	0.5	**0.5**	0.7
	36.2	38.1		
Net deferred tax asset	**22.1**	25.1		
Deferred income tax expense			**5.0**	3.7

The Group has tax losses which arose in the UK of £5.0m (2005: £8.5m) 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 £4.0m (2005: £6.9m) of these losses, as their recoverability is uncertain.

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:

	2006 £m	2005 £m
Net profit attributable to ordinary equity holders of the parent from continuing operations	**139.8**	107.5

	2006 Number million	2005 Number million
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	**626.3**	660.1
Dilutive potential ordinary shares:		
Employee share options	**15.0**	9.7
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	**641.3**	669.8

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 and impairment of £144.8m (2005: £122.8m). They are included as they provide a better understanding of the underlying trading performance of the Group.

	2006 p	2005 p
Basic earnings per share – before amortisation and impairment	**23.10**	18.60
– after amortisation and impairment	**22.32**	16.28
Diluted earnings per share – before amortisation and impairment	**22.56**	18.33
– after amortisation and impairment	**21.80**	16.05

12 Dividends paid and proposed

	2006 £m	2005 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2005 paid: 4.9p per share (2004: 3.6p per share)	**31.1**	24.0
Interim for 2006 paid 2.7p per share (2005: 2.1p per share)	**16.6**	14.0
	47.7	38.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2006: 6.3p per share (2005: 4.9p per share)	**38.9**	32.0

Notes to the consolidated financial statements

13 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2005	27.7	184.4	212.1
Subsidiaries acquired	1.8	2.1	3.9
Additions	7.7	42.0	49.7
Disposals	(0.8)	(1.5)	(2.3)
At 31 December 2005	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**
Depreciation and impairment			
At 1 January 2005	10.4	72.6	83.0
Provided during the year	3.5	28.2	31.7
Disposals	(0.3)	(1.1)	(1.4)
At 31 December 2005	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**
Net book value			
At 1 January 2005	17.3	111.8	129.1
At 31 December 2005	22.8	127.3	150.1
At 31 December 2006	**25.2**	**145.8**	**171.0**

The net book value of plant and machinery includes an amount of £0.1m (2005: £0.2m) in respect of assets held under finance leases. The net book value of assets held by the Group for which it acts as lessor, amount to £4.7m (2005: £8.7m).

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 2005	2.6	2.0	5.5	–	486.8	496.9	8.0	504.9
Subsidiaries acquired	2.7	–	1.2	26.7	75.3	105.9	–	105.9
Additions	–	–	–	–	–	–	4.0	4.0
At 31 December 2005	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**
Amortisation and impairment								
At 1 January 2005	0.4	0.2	1.2	–	–	1.8	2.9	4.7
Amortisation during the year	0.7	0.4	1.7	1.7	–	4.5	4.9	9.4
Impairment	–	–	–	–	12.0	12.0	–	12.0
At 31 December 2005	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**
Net book value								
At 1 January 2005	2.2	1.8	4.3	–	486.8	495.1	5.1	500.2
At 31 December 2005	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**

14 Intangible assets (continued)

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. The useful life of other intangibles has been extended for a further 4 years, as the contract has now been extended.

Customer lists and relationships includes an amount of £11.0m in respect of relationships acquired with the BDML acquisition, which is being amortised over 10 years.

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 4 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 11.4% is then applied to these projections.

Compound growth rates (years 2–5)	%
Property Consultancy	10.0
HR Solutions	10.0
Insurance & Specialist Services	10.0
Registrar Services	8.5
Financial Services	8.5
Life & Pensions	10.4
Balance of CGUs (weighted average growth rate)	9.6

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
2006								
Goodwill	**46.1**	**80.7**	**167.7**	**93.6**	**77.3**	**26.5**	**97.5**	**589.4**
2005								
Goodwill	43.8	80.7	166.6	88.3	62.8	26.2	81.7	550.1

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 margins achieved remaining 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

	2006 £m	2005 £m
Non Current financial assets		
Available for sale investments	**20.1**	12.2
Investment loan	**12.5**	–
Interest rate swaps	**–**	1.6
	32.6	13.8

Available-for-sale financial assets include investments in cash funds, held in the Group's insurance captives, of £19.8m (2005: £12.0m) and investments in unlisted ordinary shares of £0.3m (2005: £0.2m). Investments in cash funds represent units acquired which are periodically valued based on the underlying performance of the investments held. The unlisted ordinary shares, where 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. Details of the interest rate swaps are contained in note 24.

The Group has entered into a funding arrangement with Optima Legal Services Limited (OLSL) providing £12.5m to fund that company's acquisition of the volume legal services arm of DLA Piper. In addition, it has 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.

17 Business combinations

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 the year 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 is expected to be paid has been accrued in respect of acquisitions made in the current and prior years amounting to £9.1m. 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 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 the year.

Acquisitions in the year included Sinclair Henderson group of companies, Ruddle Wilkinson Limited, Synaptics Services Limited, Webline Limited, Stirling Trustees Limited and Two Ten Communications 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 February 2007 the Group acquired the entire share capital of Harry Weeks Travel & Leisure Group Limited for a consideration of £21m, with a further £12m payable over the next 4 years subject to the business achieving certain performance targets.

17 Business combinations (continued)

2005 acquisitions

The Group made a number of acquisitions in 2005 of which only one, the acquisition of the BDML group of companies (BDML), is considered material and is thus disclosed separately, the remainder are shown in aggregate. The book and fair values of the assets acquired are disclosed in the tables below:

BDML	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	–	12.9	12.9
Property, plant and equipment	0.8	(0.1)	0.7
Deferred tax	1.0	–	1.0
Debtors	38.0	–	38.0
Cash and short term deposits	0.3	–	0.3
Creditors	(40.3)	(0.3)	(40.6)
Corporation tax	0.3	–	0.3
Net assets	0.1	12.5	12.6
Goodwill arising on acquisition			13.4
			26.0
Discharged by:			
Cash			25.7
Associated costs settled in cash			0.3
			26.0

BDML, includes BDML Connect Limited, an insurance intermediary and agent, that offers instalment debt facilities to its insurance customers and a specialist in pet insurance and policy administration.

The Group acquired 100% of the ordinary share capital of BDML on 25 July 2005. From the date of acquisition to the comparative year end BDML contributed £1.1m to the net profit after tax of the Group. Had the combination taken place at the beginning of 2005, the profit after tax of the Group would have been £107.9m and the revenue from continuing operations would have been £1,443.7m in the comparative year.

Included within goodwill on acquisition were certain intangibles that were not separable from the acquiree and could not be measured. These included customer loyalty and the assembled workforce.

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.

Other acquisitions	Book values £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	0.3	17.4	17.7
Property, plant and equipment	4.0	(0.8)	3.2
Deferred tax	1.3	–	1.3
Debtors	23.3	(0.2)	23.1
Cash and short term deposits	2.4	–	2.4
Creditors	(20.8)	(1.1)	(21.9)
Provisions	(0.1)	(0.1)	(0.2)
Corporation tax	(1.1)	–	(1.1)
Long term debt	(2.9)	–	(2.9)
Net assets	6.4	15.2	21.6
Goodwill arising on acquisition			52.7
			74.3
Discharged by:			
Fair value of shares issued			0.3
Cash			62.1
Deferred consideration paid			13.8
Deferred consideration accrued			4.7
Release of deferred consideration			(6.6)
			74.3

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 2005 by £9.2m and to create a deferred tax liability of the same amount.

17 Business combinations (continued)

The other acquisitions in 2005 included Buchanan Consulting Engineers Limited, BMI Health Services Limited, Channel House Financial Services Group Limited, FPS Group of Companies Limited, Lonsdale Travel Limited, Quay Software Solutions Limited, Randall Lyons Limited, Micromedia Limited, MHA Pensions Limited and Norman + Dawbarn. The companies acquired provide a range of property, health, trust, pension, corporate travel and software services.

On 8 November 2005, 0.1 million ordinary 2p shares with an aggregate nominal value of £1,300 were issued at £3.89 each pursuant to the acquisition of a subsidiary undertaking, Lonsdale Travel 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.

Included in the above table is further consideration paid in cash in 2005 with regard to the acquisition of the Lincoln Life and Pensions business in a previous year of £13.8m against which the Group had provided for accrued deferred consideration payable of £6.6m. There were also further payments on previous acquisitions. The impact of these further payments was to increase goodwill in 2005 by £9.4m.

18 Trade and other receivables

Current	2006 £m	2005 £m
Trade receivables	**221.4**	207.6
Other receivables	**25.5**	35.0
Gross amounts due from customers on construction contracts	**9.3**	5.4
Prepayments and accrued income	**138.7**	95.8
	394.9	343.8

Non-current	2006 £m	2005 £m
Trade receivables	–	4.9
Other receivables	**0.4**	–
Prepayments and accrued income	**6.4**	0.9
	6.8	5.8

Trade receivables have been netted down by the value of bad debt provisions of £4.4m (2005: £4.0m).

19 Trade and other payables

Current	2006 £m	2005 £m
Trade payables	**47.5**	61.8
Other payables	**59.7**	52.5
Other taxes and social security	**57.0**	49.6
Gross amounts due to customers on construction contracts	**2.2**	2.2
Accruals and deferred income	**273.9**	211.9
Deferred consideration payable	**9.1**	–
	449.4	378.0
Non-current		
Accruals and deferred income	**0.8**	1.3
	0.8	1.3

20 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.

	2006 £m	2005 £m
Contract revenue recognised in relation to construction contracts in the year	**70.5**	47.3
Aggregate costs incurred and recognised profits (less losses) to date	**101.0**	95.2
Gross amount due from customers for construction contracts	**9.3**	5.4
Gross amount due to customers on construction contracts	**2.2**	2.2

21 Financial liabilities

Current	2006 £m	2005 £m
Bank overdraft	**0.5**	19.3
Obligations under finance leases (note 22)	**0.2**	0.2
Unsecured loan notes	**22.2**	2.2
Asset-based securitised financing (see below)	**27.5**	28.2
	50.4	49.9
Non-current		
Unsecured loan notes	–	20.5
Obligations under finance leases (note 22)	**0.3**	–
Bonds	**372.0**	198.6
Currency swaps	**6.4**	2.6
	378.7	221.7

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 disclosed in the current year is held with The Royal Bank of Scotland and therefore there is no right of set off. It bears interest at standard rates. The bank overdraft disclosed as a comparative bears interest at Barclays Bank standard rates based on LIBOR and the bonds effectively bear interest at a rate based on 6 month LIBOR.

Loan notes were issued pursuant to the satisfaction of consideration due in relation to the acquisition of a subsidiary undertaking. Loan notes issued during the year amounted to £nil (2005: £nil) and £0.5m (2005: £4.4m) were repaid. There is £1.7m of loan notes repayable on demand with a final maturity date of 31 May 2007. Additionally loan notes of value £20.5m will be repaid in the second quarter of 2007. The interest rates attributable to the loan notes are fixed for each new issue. These rates range from 3.45% to 5.25%.

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
Total of US$ denominated bonds			437.0 (GBP £242.0m)	

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 24 commencing on page 101.

Issue cost incurred was £0.6m and this is being spread over the life of the bonds to their maturity.

22 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:

	2006 £m	2005 £m
Not later than 1 year	**0.2**	0.2
Later than 1 year but not later than 5 years	**0.3**	–
	0.5	0.2

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:

	2006 £m	2005 £m
Not later than 1 year	**53.7**	50.5
Later than 1 year but not later than 5 years	**113.3**	120.3
Later than 5 years	**57.7**	68.3
	224.7	239.1

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:

	2006 £m	2005 £m
Not later than 1 year	**18.1**	18.1
Later than 1 year but not later than 5 years	**1.5**	19.6
	19.6	37.7

23 Provisions

	Property provision £m
At 1 January 2006	3.3
Provisions acquired	**0.3**
Utilisation	**(2.1)**
Additional provisions in the year	**0.1**
Unwinding of interest on discounted provisions	**0.1**
At 31 December 2006	**1.7**

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 1 to 6 years.

24 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments 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.

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

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

The disclosure below excludes short term debtors and creditors.

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements.

	2006		2005	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets				
Available for sale current assets	**20.1**	**20.1**	12.2	12.2
Investment loan	**12.5**	**12.5**	–	–
Cash in hand	**9.7**	**9.7**	–	–
Interest rate swaps	**–**	**–**	1.6	1.6
Financial liabilities				
Bank overdraft	**0.5**	**0.5**	19.3	19.3
Obligations under finance leases	**0.5**	**0.5**	0.2	0.2
Loan notes	**22.2**	**22.2**	22.7	22.7
Bonds	**372.0**	**372.0**	198.6	198.6
Currency swaps	**6.4**	**6.4**	2.6	2.6

In addition to the above financial liabilities, at the year end there is an amount of £27.5m (2005: £28.2m) of asset-based securitised financing. This form of financing initially arose as a consequence of the acquisition of BDML Connect Ltd in 2005. The purpose of this arrangement is to securitise customer receivables derived through the provision of instalment credit facilities to insurance customers of that company.

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

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 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 held for sale	**–**	**(20.1)**	**–**	**–**	**–**	**–**	**(20.1)**
Bonds	**–**	**–**	**99.2**	**–**	**–**	**272.8**	**372.0**
Interest rate swap	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign currency swap	**–**	**–**	**1.0**	**–**	**–**	**5.4**	**6.4**

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.

24 Financial instruments (continued)

At 31 December 2005	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	2.2	20.5	–	–	–	–	22.7
Obligations under finance leases	0.2	–	–	–	–	–	0.2
Floating rate							
Bonds	–	–	–	100.4	–	98.2	198.6
Assets held for sale	–	(12.2)	–	–	–	–	(12.2)
Bank overdraft	(19.3)	–	–	–	–	–	(19.3)
Interest rate swap	–	–	–	(1.6)	–	–	(1.6)
Foreign currency swap	–	–	–	1.4	–	1.2	2.6

Foreign Currency risk
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.

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 2006 and 31 December 2005, 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 2006 and December 2005, 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 21). 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.

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 a master netting arrangement in respect of its banking facilities resulting in the legal right of set-off for its overdraft and cash balances.

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.

24 Financial instruments (continued)

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 2006 and 31 December 2005.

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 32.

The following is summary quantitative data of the components the Group manages as capital:

	2006 £m	2005 £m
Shareholders' funds	**325.8**	397.6
Bank overdraft	**0.5**	19.3
Finance leases	**0.5**	0.2
Unsecured loan notes	**22.2**	22.7
Bonds	**372.0**	198.6
Currency swaps	**6.4**	2.6
At 31 December	**727.4**	641.0

25 Authorised and issued share capital

	2006 Million	2005 Million	2006 £m	2005 £m
Authorised				
Ordinary shares of 2p each	**1,000.0**	1,000.0	**20.0**	20.0
Allotted, called up and fully paid				
Ordinary shares of 2p each				
At 1 January	**671.0**	670.9	**13.4**	13.4
Shares repurchased	**(52.9)**	(5.0)	**(1.1)**	(0.1)
Issued on exercise of share options	**16.4**	5.0	**0.4**	0.1
Issued on acquisition of subsidiary undertaking	**–**	0.1	**–**	–
Treasury shares cancelled	**(16.9)**	–	**(0.4)**	–
At 31 December	**617.6**	671.0	**12.3**	13.4

During the year the Group repurchased 52.9m ordinary 2p shares with an aggregate nominal value of £1.1m at a total cost of £244.9m for which it paid cash at an average cost per share of £4.64. These shares were cancelled.

During the year 16.4m ordinary 2p shares with an aggregate nominal value of £0.4m were issued under share option schemes for a total consideration of £50.4m.

Treasury shares	2006 Million	2005 Million	2006 £m	2005 £m
Ordinary shares of 2p each				
At 1 January	**16.9**	8.6	**0.4**	0.2
Shares repurchased	**–**	8.3	**–**	0.2
Shares cancelled	**(16.9)**	–	**(0.4)**	–
At 31 December	**–**	16.9	**–**	0.4

During the year the company cancelled the shares held in treasury.

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

26 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 3 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 3 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)

This scheme was only open to the Executive Directors and the Divisional Executive Directors. The final grant under this scheme was made in November 2004. Under this scheme, participants were granted 2 equal tranches of 600,000 share options. The performance criteria are the same for both tranches with performance periods that end on 31 December 2006. The exercise price of the options increases in line with the FTSE All Share Index from the date of grant to 25 November 2007. 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. These options are only exercisable subject to the growth in the company's EPS over the performance period.

Options will become exercisable, if over the performance period, the growth in the company's EPS exceeds certain targets as follows: 25% of the options shall vest if growth in the company's EPS exceeds RPI growth by 8% per annum, rising on a straight-line basis to 100% vesting if growth in the company's EPS exceeds growth in the RPI by 12% per annum. The contractual life of options granted is 10 years for the first tranche and 8 years for the second tranche as the options under both schemes are exercisable between 25 November 2007 and 25 November 2012.

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 3 year vesting period from the date of grant. The contractual life of each option granted is 7 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 (2005: 10% and 20% prior to 2005). The options become exercisable for a 6 month period following completion of a 3 or 5 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 2006 was £8.5m (2005: £7.6m), 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).

	2006 number	2006 WAEP	2005 number	2005 WAEP
Outstanding as at 1 January	**42,679,159**	**£3.29**	47,937,231	£3.16
Granted during the year	**5,240,564**	**£3.46**	5,226,702	£3.57
Exercised	**(16,214,092)**	**£3.12**	(4,263,298)	£2.29
Forfeited	**(2,458,650)**	**£2.78**	(4,365,106)	£3.09
Expired during the year	**(339,804)**	**£3.38**	(1,856,370)	£3.35
Outstanding as at 31 December[1]	**28,907,177**	**£3.65**	42,679,159	£3.29
Exercisable at 31 December	**11,859,421**	**£3.95**	21,096,290	£3.96

[1] Included within this balance are options over 11,012,567 (2005: 21,950,907) 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 £4.97 (2005: £3.78).

As noted above under the LTISAS scheme 2 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. During the year, 106,667 share options under this scheme were forfeited thus the total number of options outstanding under this scheme was 10,693,333 at 31 December 2006 (2005: 10,800,000). As the exercise price of the options increases in line with the FTSE All Share Index from the beginning to the end of the performance period, it is not possible to determine the weighted average exercise price until the end of the performance period. None of the LTISAS options are exercisable until 25 November 2007.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.5m (2005: £1.7m) The matching shares allocation in respect of the 2005 awards under this plan charged in 2006 was £0.5m.

26 Share based payment plans (continued)

The weighted average fair value of options granted during the year was £1.00 (2005: £1.16). The range of exercise prices for options outstanding at the end of the year was £0.71 to £5.35 (2005: £0.34 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 2006 and 31 December 2005.

	2006	2005
Dividend yield (%)	**1.5**	1.5
Expected share price volatility (%)	**24.76**	37.80
Risk free interest rate (%)	**4.5**	4.5
Expected life of option (years)	**4.43**	4.49
Weighted average share price	**£4.97**	£3.78

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.

27 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	Total equity £m	Minority interests £m	Total £m
At 1 January 2005	13.4	248.1	(0.2)	0.1	98.4	0.1	359.9	0.4	360.3
Total recognised income and expense for the year	–	–	–	–	107.5	0.2	107.7	(0.2)	107.5
Share based payment	–	–	–	–	7.6	–	7.6	–	7.6
Purchase of own shares – held in treasury	–	–	(0.2)	–	(30.8)	–	(31.0)	–	(31.0)
Purchase of own shares – cancelled	(0.1)	–	–	0.1	(18.6)	–	(18.6)	–	(18.6)
Share transaction costs	–	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Shares issued	0.1	10.0	–	–	–	–	10.1	–	10.1
Equity dividends paid	–	–	–	–	(38.0)	–	(38.0)	–	(38.0)
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 31 December 2006	**12.3**	**308.1**	–	**1.7**	**4.0**	**(0.4)**	**325.7**	**0.1**	**325.8**

Share capital – The balance classified as share capital is the nominal proceeds on issue of the company's equity share capital, comprising 2p 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 1 currency in terms of another currency by use of the exchange rate between the 2 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.

Retained earnings – Net profits kept to accumulate in the Group after dividends are paid and retained in the business as working capital.

28 Additional cash flow information

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

	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 18)	(28.2)	–	0.7	–	(27.5)
	(270.0)	(3.6)	(145.6)	(0.2)	(419.4)

	Net debt at 1 January 2005 £m	Acquisitions in 2005 (exc. Cash) £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 31 December 2005 £m
Overdrafts	(26.1)	–	6.8	–	(19.3)
Overdrafts	(26.1)	–	6.8	–	(19.3)
Loan notes	(27.1)	–	4.4	–	(22.7)
Long term debt	–	(2.9)	2.9	–	–
Bonds	(123.0)	–	(74.9)	(0.7)	(198.6)
Currency swaps	(3.1)	–	–	0.5	(2.6)
Interest rate swaps	1.4	–	–	0.2	1.6
Finance leases	(0.2)	(0.2)	0.2	–	(0.2)
Sub-total net debt	(178.1)	(3.1)	(60.6)	–	(241.8)
Asset based securitised finance (see note 18)	–	(26.8)	(1.4)	–	(28.2)
	(178.1)	(29.9)	(62.0)	–	(270.0)

29 Capital commitments

At 31 December 2006, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £2.0m (2005: £8.1m).

30 Contingent liabilities

(a) The Group has provided, through the normal course of its business, performance bonds of £7.8m (2005: £4.1m). The Group has also provided indemnities to the value of £nil (2005: £0.5m).

(b) Further consideration may be due, dependent on certain performance criteria, on the acquisition of Ruddle Wilkinson Limited (acquired 01 May 2006) up to a maximum of £0.6m.

(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 Capita Business Travel (formerly Lonsdale Travel Limited) (acquired 08 November 2005) up to a maximum of £0.3m.

(e) Further consideration may be due, dependent on certain performance criteria, on the acquisition of Harry Weeks Travel and Leisure Group Limited (acquired 01 February 2007) up to a maximum of £12.0m.

31 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 £17.2m (2005: £9.4m). In 2006, employer contributions to defined contribution pension schemes included £6.2m made through a salary sacrifice arrangement.

In 2005 there were 2 main defined benefit pension schemes where the Group was the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme) and The Eastgate Assistance Retirement Benefit Scheme (Eastgate scheme). On 1 April 2006 the assets and liabilities of the Eastgate scheme were transferred into the Capita scheme. Accordingly, the comparative figures for 2005 relate to the Capita scheme combined with the Eastgate scheme. Grouped together under 'Other schemes' are smaller arrangements: 1 scheme where the Group is the sole employing sponsor; allocated sections of 2 multi-employer schemes in which the Group is a participating employer; 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 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)**

At 31 December 2005	Capita scheme £m	Other schemes £m	Group total £m
Scheme assets at fair value:			
Equities/Hedge funds/Absolute returns	198.1	72.1	270.2
Bonds	67.5	27.6	95.1
Property	11.8	6.5	18.3
Insurance contracts	2.9	0.5	3.4
Cash/other	5.8	2.6	8.4
Total	286.1	109.3	395.4
Present value of scheme liabilities	(308.1)	(130.3)	(438.4)
Net liability	(22.0)	(21.0)	(43.0)

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.

31 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 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**

Year ended 31 December 2005	Capita scheme £m	Other schemes £m	Group total £m
Recognised in the income statement:			
Current service cost	9.7	2.4	12.1
Past service cost	1.2	–	1.2
Recognised in arriving at operating profit	10.9	2.4	13.3
Expected return on scheme assets	(15.6)	(5.6)	(21.2)
Interest cost on scheme liabilities	14.1	5.8	19.9
Net finance cost included in administrative expenses	(1.5)	0.2	(1.3)
Total defined benefit charge	9.4	2.6	12.0
Taken to the statement of recognised income and expense:			
Actual return on scheme assets	42.0	18.1	60.1
Less: expected return on scheme assets	(15.6)	(5.6)	(21.2)
	26.4	12.5	38.9
Other actuarial gains and losses	(29.3)	(13.1)	(42.4)
Actuarial gains and losses recognised in the statement of recognised income and expense	(2.9)	(0.6)	(3.5)

Pension contributions are determined based on the advice of qualified independent actuaries. In 2006, employer contributions to defined benefit pension schemes included £3.0m made through a salary sacrifice arrangement.

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 31 March 2004 or 1 April 2004. 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 and overall expected rates of return are established by considering published brokers' forecasts for each category of scheme assets.

31 Pensions (continued)

Main assumptions:	Capita scheme 2006 %	Capita scheme 2005 %	Other schemes 2006 %	Other schemes 2005 %
Rate of price inflation	**2.9**	2.7	**2.9**	2.7
Rate of salary increase	**3.9**	3.7	**3.9**	3.7
Rate of increase of pensions in payment[2]:				
– inflation capped at 5%	**2.9**	2.7	**2.9**	2.7
– inflation capped at 2.5%	**2.1**	2.0	**2.1**	2.0
Discount rate	**5.2**	4.8	**5.2**	4.8
Expected rates of return on scheme assets (net of scheme expenses):				
Equities/Hedge funds/Absolute returns	**7.6**	7.2	**7.6**	7.2
Bonds	**4.9**	4.4 to 4.8	**4.7 to 5.0**	4.6
Property	**7.6**	7.2	**7.6**	7.2
Insurance contracts	**5.2**	4.8	**5.2**	4.8
Cash/other	**5.0**	4.5	**5.0**	4.5
Expected take up of extended limits of tax free cash due to A day legislation	**50.0**	n/a[5]	**50.0**[4]	n/a[5]

Post retirement mortality	Capita scheme[3] 2006	Capita scheme[3] 2005	Other schemes[1] 2006	Other schemes[1] 2005
– Current pensioners	**PA92 MC (YOB) rated up 2 years**	PA92 MC (YOB=1935) rated up 3 years	**PA92 MC (YOB=1965) rated up 2 years**	PA92 MC (YOB=1935) rated up 3 years
– Future pensioners	**PA92 MC (YOB) rated up 2 years**	PA92 MC (YOB=1965) rated up 3 years	**PA92 MC (YOB=1965) rated up 2 years**	PA92 MC (YOB=1965) rated up 3 years

[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] In 2005, the post retirement mortality assumption for the Eastgate scheme for both current and future pensioners was '90% of PA92 (C=2020)'.
[4] This does not apply to the Admitted Body Schemes where no allowance for the extended limits is taken.
[5] For 2005 the assumption was that the maximum permissible tax-free cash sum applicable would be taken.

31 Pensions (continued)

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 2005	257.8	105.3	363.1
Current service cost	9.7	2.4	12.1
Past service cost	1.2	–	1.2
Interest cost	14.1	5.8	19.9
Benefits paid	(7.2)	(1.2)	(8.4)
Actuarial gains and losses	29.3	13.1	42.4
Contributions by employees	2.2	1.3	3.5
Contract bulk transfers/ business combinations	1.0	3.6[1]	4.6
As at 31 December 2005	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/ business combinations	**(2.5)**	**–**	**(2.5)**
As at 31 December 2006	328.8	141.8	470.6

The defined benefit obligation comprises £470.6m (2005: £438.4m) arising from schemes that are wholly or partly funded.

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 2005	234.4	84.6	319.0
Expected return on scheme assets	15.6	5.6	21.2
Contract bulk transfers/ business combinations	1.0	3.6[1]	4.6
Employer contributions	13.7	2.9	16.6
Contributions by employees	2.2	1.3	3.5
Benefits paid	(7.2)	(1.2)	(8.4)
Actuarial gains and losses	26.4	12.5	38.9
As at 31 December 2005	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

The total employer contributions to the defined benefit pension schemes in 2007 are estimated to be £16.5m in respect of the Capita scheme and £3.7m in respect of the 'Other' schemes.

The service costs have been determined using the projected unit method. As some of the sections are closed to new entrants, the service cost (expressed as a % of pensionable salaries) would be expected to increase as the average age of the membership increases.

[1] The assets and liabilities of the FPS Defined Benefit Scheme are included as a business combination. The figures have been determined as of 1 September 2005 (the date on which the Group acquired FPS).

31 Pensions (continued)

History of experience gains and losses:

	2006 £m	2005 £m	2004 £m	2003 £m
Capita scheme				
Fair value of scheme assets	**321.4**	286.1	234.4	151.4
Present value of defined benefit obligation	**(328.8)**	(308.1)	(257.8)	(210.4)
Scheme deficit	**(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	**9.8**	26.4	2.6	
Other schemes				
Fair value of scheme assets	**122.4**	109.3	84.6	72.9
Present value of defined benefit obligation	**(141.8)**	(130.3)	(105.3)	(91.7)
Scheme deficit	**(19.4)**	(21.0)	(20.7)	(18.8)
Experience adjustments arising on scheme liabilities	**(3.9)**	(13.1)	(4.7)	
Experience adjustments arising on scheme assets	**3.5**	12.5	3.0	

The cumulative amount of actuarial losses recognised since 1 January 2004 in the consolidated statement of recognised income and expense is £10.4m (2005: £23.4m). 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.

32 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)

	2006 £m	2005 £m
Short term employment benefits	**3.1**	3.1
Post employment benefits	**0.1**	0.1
Share based payments	**1.1**	1.1
	4.3	4.3

Gains on share options exercised in the year by key management personnel totalled £1.2m (2005: £0.4m).