CAPITA

**24 July 2008**

**THE CAPITA GROUP PLC**

**Half year results for the 6 months to 30 June 2008**

**STRONG PERFORMANCE**

**Financial highlights**

| | Interim 2008 | Interim 2007 | **Change** |
|---|---|---|---|
| Turnover | £1,182m | £985m | **20%** |
| Operating profit | £140.6m | £118.9m | **18%** |
| Profit before tax | £120.2m | £103.8m | **16%** |
| Earnings per share | 14.46p | 12.13p | **19%** |
| Interim dividend per share | 4.8p | 4.0p | **20%** |

**Key points**

- Excellent organic growth including £626m major contracts secured in the first 6 months of 2008 (first 6 months of 2007: £1.15bn)
- A further £187m of new and extended major contracts secured in July 2008
- Margins at 11.9% (6 months to 30 June 2007: 12.1%)
- Strong free cash flow – up by 23% to £102m (6 months to June 2007: £83m)
- 20% increase in half year dividend to 4.8p per share
- Buoyant bid pipeline of £3bn (Feb 2008: £2.5bn): markets remain highly active
- 8 acquisitions completed to date in 2008 at a cost of £128.8m.

**Paul Pindar, Chief Executive of The Capita Group Plc, commented:**

"Capita has made strong progress in 2008. Our businesses across the Group have performed well and we have secured new and renewed major contracts worth £626m in the first 6 months of the year. The second half of the year has also started strongly with a further £187m of new and renewed contracts secured in July 2008.

We remain very positive about future growth. Our markets continue to generate an encouraging volume of opportunities and our operational performance is consistently strong. Our successes in 2007 and progress in the first half of 2008 mean that the ingredients for a successful year are already in place. We are now focused on building a strong platform for continued growth in 2009 and beyond."

**For further information:**


**The Capita Group Plc** Tel: 020 7799 1525
Paul Pindar, Chief Executive
Shona Nichols, Corporate Communications Director
Capita Press Office Tel: 0870 2400 488

**Financial Dynamics** Tel: 020 7269 7121
Andrew Lorenz

CAPITA

## The Capita Group Plc

## Half year results for the 6 months to 30 June 2008

Capita, the UK's leading business process outsourcing ("BPO") and professional services company, has made strong progress in 2008. Our businesses across the Group have performed well and we have secured new and renewed major contracts worth £626m in the first 6 months of the year. The second half of the year has also started strongly with a further £187m of new and renewed contracts secured in July 2008.

In the period ended 30 June 2008, turnover increased by 20% to £1,182m (6 months to 30 June 2007: £985m). Operating profit before amortisation rose by 18% to £140.6m (2007: £118.9m) and profit before taxation and amortisation increased by 16% to £120.2m (2007: £103.8m). Earnings per share before amortisation grew by 19% to 14.46p (2007: 12.13p).

Operating cash flow rose by 20% to £174m (2007: £145m). We have increased our interim dividend by 20% and we propose to pay 4.8p per share. We have also returned a further £66m to shareholders through purchasing our own shares.

**Building value for shareholders**

To ensure we build value for shareholders on a consistent basis over the long term, we focus on a number of key financial measures:

- **Margins** - our focus remains on generating steadily improving operating margins. In the period, operating margins (before amortisation) were 11.9% (2007: 12.1%). This has been achieved against a background of unprecedented growth in our Life & Pensions business. We have invested heavily in the period in recruiting senior management to position us well for further growth in this market and we have also invested significantly to ensure the successful implementation of several new contracts. The long term trend for margins remains positive.

- **Cash flow** - the strength of our business model is reflected in our excellent underlying cash flow, with £174m (2007: £145m) generated by operations in the period, representing an operating profit to cash conversion rate of 124% (2007: 122%). Our free cash flow increased by 23% to £102m (2007: £83m).

We use surplus cash to add value in 3 main ways – through acquisitions, share buybacks and dividends:

  - **Acquisitions** - acquisitions help us to enter new markets where we can grow organically, strengthen existing market positions and build economies of scale, or access a new customer base. To date in 2008, we have spent a total of £128.8m on 8 acquisitions. We will continue with our strategy of acquiring small to medium-sized businesses which are priced at a level which adds value for our shareholders. Current market conditions are fuelling our pipeline of potential acquisitions and we therefore expect to be equally active in acquiring suitable businesses in the second half of the year.
  - **Share buybacks** - opportunistic share buybacks help us to maintain an efficient capital structure and minimise our long term cost of capital. In the period to 30 June 2008, the Group has bought back 10m shares (representing 1.6% of the issued share capital) at an average price of 662p. Following these buybacks, there are 605m shares in issue. Shareholders renewed the Group's authority to purchase up to 10% of issued share capital at our AGM in May 2008.

- **Half year dividend** – the Board has declared a half year dividend of 4.8p per ordinary share (2007: 4.0p), representing an increase of 20%. The dividend will be payable on 3 October 2008 to shareholders on the register at the close of business on 29 August 2008.

- **Capital expenditure** – we aim to contain capital expenditure at or below 4% of revenue. During the period, we met this objective with net capital expenditure at 2.8% (2007: 3.2%) of revenue.

- **Return on capital employed** – we focus on driving a steadily increasing return on capital. Over the last 12 months, the post tax return on average capital employed (including debt) has improved to 20.2% (12 months to 30 June 2007: 18.6%). This compares to our estimated weighted average cost of capital which is 8.2%.

**Our marketplace**

The market for BPO in the UK and Ireland provides strong growth opportunities. Industry analysts estimate the total potential market at £94.8bn per annum with only 5% of this market outsourced in 2007 (£5.1bn).*

We continue to increase our scale and capability providing us with a strong competitive edge across our markets and enabling us to present ever more compelling propositions to clients. With our recent strong performance in securing new business, we have extended the leading positions we hold in the majority of our markets. We remain the clear market leader in the overall UK BPO market.

Our most active markets remain local government and life and pensions. We are also developing some exciting opportunities in new markets.

The current challenging economic climate is increasing organisations' interest in exploring alternative outsourced business delivery models. This has resulted in a lengthening of our prospects and suspects lists, the fuel for potential major contracts in following years.

**Generating profitable growth**

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

***Organic growth***

Each of our businesses employs sales teams focused upon securing growth from both existing and new customers. Solid performance has been achieved across the Group in the first half of the year, particularly in our IT services business and in Capita Symonds, our property consultancy business.

Our centrally managed Major Sales Team pursues complex, long term contracts worth over £10m which require a wide range of the Group's skills and generate high quality, recurring revenues. Securing and renewing major contracts remains an important component of our growth.

Our sales performance to date in 2008 has been excellent. In the first 6 months, we have secured 8 new and renewed major contracts with a total value of £626m (6 months to 2007: £1.15bn). These include:

- **Marsh Ltd** - to transform and deliver Marsh UK's back office administration functions based in Norwich. Capita is providing support and processing services to enhance Marsh's broking activities to clients across its business. The contract is worth £187m over 10 years and services were transitioned smoothly on 1 July 2008. Alongside this, joint work has been initiated to explore how the partnership could be widened to support Marsh further.

*Source: Ovum 2007

- **Principle Insurance Holdings**, (formerly British Islamic Insurance Holdings / BIIH) - to provide outsourced services for Principle's motor and home insurance. Capita is providing front and back office services and an IT platform from which to launch and sell Sharia compliant insurance (or Takaful) products on behalf of Principle direct to consumers in the UK. The contract is worth in excess of £80m over 8 years based upon projected product volumes.

- **Sefton Metropolitan Borough Council** - preferred bidder to develop a 10 year strategic partnership to deliver a wide range of property and highways services. The contract, valued at approximately £70m, will be delivered by Capita's property and infrastructure consultancy, Capita Symonds. Service commencement is expected to be on 1 October 2008.

- **Capita Glamorgan Consultancy** - Bridgend, Merthyr and Rhondda Cynon Taf County Borough Councils' joint venture with Capita's property and infrastructure consultancy, Capita Symonds, to deliver a wide range of highways, transportation, associated environmental management and other related services. The contract is worth £75m over 15 years.

- **Service Birmingham** - additional arrangement signed to manage and transform Birmingham City Council's contact centre in order for the people of Birmingham to access council services in a simpler and more efficient way. The contract is worth £110m over 8 years and service commenced on 1 July 2008.

- **Health and Safety Executive (HSE)** - preferred bidder for a minimum 5 year contract to operate a new gas installer registration scheme in Great Britain, replacing the current CORGI scheme. The contract is worth £14m per year. The new scheme will renew focus on gas safety and aims to raise awareness of gas safety issues amongst gas consumers. Final negotiations are taking place, with the operation of the scheme due to start on 1 April 2009.

Today, we are delighted to announce that in July 2008 we have secured a further £187m of additional new contracts and extensions from new and existing clients, including the re-award of the Constructionline contract and additional work for the Criminal Records Bureau and the Swindon Borough Council Partnership and:

- **Department of Health NHS Choices** - chosen as preferred partner to develop and deliver NHS Choices, the digital channel to connect citizens and intermediaries with the NHS. The contract is subject to finalisation and is expected to be worth £60m over 3 years, with an option to extend for a further 2 years. This represents a significant step forward for Capita in the health marketplace and provides a strong platform for further growth in this market.

To date this year, we have therefore secured new major work from existing and new clients worth a total of £813m, maintaining our win rate of 1:2 by value.

Alongside these contract wins, our bid pipeline has been actively replenished and reflects the quality of business opportunities across our markets. The pipeline currently stands at £3bn (February 2008: £2.5bn) and only includes bid situations in which Capita is shortlisted as 1 of 4 or fewer competitors and caps the largest bids at £500m. Behind this is an active prospect list of opportunities which are yet to reach a shortlist stage.

We have no material rebids of our contracts (defined as having annual revenue in excess of 1% of 2007 turnover) until 2010.

***Stimulating growth through acquisition***

A key element of our growth is the acquisition of small to medium sized companies which extend our presence in existing marketplaces or provide a footprint in a new market. We have substantial experience of integrating acquired businesses and achieving synergies with our existing operations. In the current climate we are seeing many interesting opportunities. To date in 2008, we have acquired 8 businesses for a total consideration of £128.8m including:

- **ComputerLand UK** - provides managed IT services and products across both the public and private sectors, was purchased in March for £27.8m (net of cash acquired). This acquisition adds substantially to the breadth and depth of Capita's existing capability, particularly through the bringing together of both companies' managed IT service. Capita will be able to re-direct IT spend by Capita businesses and clients through ComputerLand, retaining spend within the Group and to offer enhanced propositions to existing and new clients. A healthy pipeline of cross-selling opportunities has already been identified and discussions initiated.

- **Lancaster Insurance Services** - specialises in broking insurance for classic cars. The acquisition of Lancaster at the end of March for £16.5m, adds both new, specialist expertise and important cost synergies to Capita's personal insurance intermediary and administration business. The business has been integrated swiftly and has performed well in its first 3 months within the Group.

- **IBS OPENSystems** - completed in July, acquired for £69.6m (net of cash acquired). IBS is a leading provider of software systems and related services for the management of social housing and the collection and payment of revenues and benefits to local authorities and housing associations in the UK. This acquisition adds to the breadth and depth of Capita's existing capabilities, particularly in the provision of housing systems for local authorities and housing associations. The businesses and product sets will be brought together over time, enhancing our market offering and realising significant cost benefits.

**Maintaining operational performance**

***Expanding capabilities***

As illustrated above, we have continued to develop steadily the scale and breadth of our capabilities in 2008. This enables us to produce compelling propositions for clients in terms of cost certainty, service efficiency, improvement and flexibility and a choice of onshore, offshore or blended service delivery.

Capita in India is growing rapidly. We are fitting out a new site in a new city, Pune, a location with a good transport infrastructure and a highly skilled graduate workforce. The first operation to be run from this site will be the offshore services for Marsh UK. In Mumbai, from October 2008, we will have 3 sites following the transfer of PPMS to Capita as part of the Prudential contract. We are already operating a combined management team across the sites to ensure the smooth transfer of the Prudential offshore services and to immediately benefit from the combined skills of both operations. By the end of 2008, we will have over 3,000 people working in India and we anticipate a continued high level of growth here. Our new contracts, particularly in the life and pensions market, add further scale to our offshore operations and provide us with the opportunity to leverage this for the benefit of our clients and the Group.

***Strong operational track record***

Another key Capita strength is our strong operational track record. We have experienced a busy period of major contract starts over the past 10 months, including Southampton City Council, Co-operative Insurance, Resolution and Prudential, involving the transfer of 5,800 staff. All transitions have been achieved successfully and we are already making good headway in achieving our key service transformation milestones. Our strong operational performance has created highly satisfied and supportive clients happy to act as strong referees to support and benefit from the future growth of Capita.

Key to Capita's ability to deliver strong operational performance and support continued growth is the expansion of our pool of skilled, senior managers. We inherit excellent talent with our major contracts and acquisitions and as market leader we are able to attract exceptional talent from other companies operating in our marketplaces. In the first 6 months of this year, we have recruited 33 senior managers across our business sectors, strengthening our current teams and creating a strong resource platform to support further growth.

***Optimising resources and infrastructure***

Across all our operations we maintain a high degree of focus on optimising our efficiency and developing resources to support future growth. Recent initiatives have included purchasing cost control initiatives that maximise and leverage Group-wide supply contracts, a supplier rationalisation programme and greater use of technology to control purchasing authorisation. Over £3m of Group procurement savings have been achieved in the first half of the year, particularly across IT, car leases and postage. Energy efficiency projects addressing the use of electricity and gas in our largest sites have resulted in a reduction in energy use of over 8% and we are on target to achieve a 12% reduction by the end of 2008. 100% of electricity directly purchased by Capita is certified as from renewable sources and we are implementing valuable, innovative energy reduction measures in our office refurbishment projects.

We have an ongoing property rationalisation programme to address the fact that we continually inherit additional properties through acquisitions and major contracts. Tangible savings have been achieved by rationalising our property portfolio so that our divisions now share premises where possible and co-exist in under-occupied areas of our customers' premises. Although we are making substantial progress in optimising our infrastructure, there is still a lot more to do.

**Group Board changes**

To support our continued growth, we are making some changes to the Group Board with effect from 1 August 2008.

**Simon Pilling**, who currently shares the role of Joint Chief Operating Officer with Paddy Doyle, will take on this role exclusively and will become Capita's Chief Operating Officer. Since joining Capita in 1999, Simon's professional and operational skills have enabled him to make a huge contribution to Capita's development. We wish him well in his new, enlarged role.

**Paddy Doyle** has decided to make an orderly transition to a part time role. Paddy's ability and judgement have played a key role in our success and we are therefore delighted he has agreed to remain an Executive Group Board member, in both a full time and then part time capacity. Paddy will be full time up to 31 December 2008 and thereafter will move to working 2 days a week for Capita. We wish Paddy well as he broadens his life outside of Capita while continuing to have an important role with us in the future.

**Maggi Bell** has made a tremendous contribution to Capita since joining in 1999. Initially Maggi ran a number of our businesses, but in recent years, she has done a superb job as the Group's Sales & Marketing Director. We are delighted to announce that Maggi is promoted to Capita's Group Board as Business Development Director. Maggi will make an excellent addition to our Board as we continue to broaden and strengthen the Board's skills.

**Valuing our people**

Our people continue to be the bedrock of our success. Their hard work, commitment, ingenuity and enthusiasm enable us to meet and exceed our clients' expectations and support our growth. We also offer a warm welcome to the employees that have joined us since the beginning of 2008 through direct recruitment, contracts and acquisitions. The Board would like to thank everyone across the Group for the role they play in Capita's success.

**Future prospects**

We are very positive about our future growth. Our markets continue to generate an encouraging volume of opportunities, our sales prospects are exciting and our operational performance is consistently strong.

Our successes in 2007 and progress in the first half of 2008 mean that the ingredients for a successful year are already in place. We are now focused on building a strong platform for continued growth in 2009 and beyond.

**-Ends-**

**The Capita Group Plc** is the UK's leading provider of integrated professional support service solutions. The Group's service capabilities encompass customer services, financial services, human resource services, software services, systems and strategic support and property services delivered to both public sector and private organisations. With over 32,200 employees at more than 300 offices across the UK, Ireland and India, Capita is quoted on the London Stock Exchange (CPI.L), and is a constituent of the FTSE100 with revenues for 2007 of £2,073 million.

Further information on The Capita Group Plc can be found at: http://www.capita.co.uk

# Half year statement

## Half year condensed consolidated income statement

for the 6 months ended 30 June 2008

| | | **30 June 2008** | | | 30 June 2 | | |
|---|---|---|---|---|---|---|---|
| | | **Before amortisation** | **Amortisation** | **Total** | Before amortisation | Amortisation | T |
| | Notes | **£m** | **£m** | **£m** | £m | £m | |
| **Continuing operations:** | | | | | | | |
| **Revenue** | 3 | **1,182.5** | **-** | **1,182.5** | 985.0 | - | 98 |
| Cost of sales | | **852.4** | **-** | **852.4** | 711.9 | - | 71 |
| **Gross profit** | | **330.1** | **-** | **330.1** | 273.1 | - | 27 |
| Administrative expenses | | **189.5** | **4.9** | **194.4** | 154.2 | 4.1 | 15 |
| **Operating profit** | 3 | **140.6** | **(4.9)** | **135.7** | 118.9 | (4.1) | 11 |
| Finance costs | | **(20.2)** | **-** | **(20.2)** | (15.1) | - | (15 |
| Investment loss | | **(0.2)** | **-** | **(0.2)** | - | - | |
| **Profit before tax** | | **120.2** | **(4.9)** | **115.3** | 103.8 | (4.1) | 9 |
| Income tax expense | | **(32.5)** | **1.4** | **(31.1)** | (28.8) | 1.7 | (27 |
| **Profit for the period** | | **87.7** | **(3.5)** | **84.2** | 75.0 | (2.4) | 7 |
| **Attributable to:** | | | | | | | |
| Equity holders of the parent | | **87.7** | **(3.5)** | **84.2** | 75.0 | (2.4) | 7 |
| **Earnings per share** | | | | | | | |
| - basic | 4 | **14.46p** | **(0.58)p** | **13.88p** | 12.13p | (0.38)p | 11.7 |
| - diluted | 4 | **14.29p** | **(0.57)p** | **13.72p** | 11.85p | (0.37)p | 11.4 |

## Half year condensed consolidated statement of recognised income and expense

for the 6 months ended 30 June 2008

| | **30 June 2008** | 30 June 2007 |
|---|---|---|
| | **£m** | £m |
| Actuarial (losses)/gains on defined benefit pension schemes | **(0.5)** | 34.9 |
| Exchange differences on translation of foreign operations | **0.8** | (0.1) |
| Gain on available for sale investments | **-** | 1.5 |
| Losses on cash flow hedges | **(21.8)** | - |
| Tax on items taken directly to equity | **7.5** | (9.2) |
| Net (expense)/income recognised directly in equity | **(14.0)** | 27.1 |
| Profit for the period | **84.2** | 72.6 |
| Total income and expense for the period | **70.2** | 99.7 |
| Attributable to: | | |
| Equity holders of the parent | **70.2** | 99.7 |

# Half year condensed consolidated balance sheet

for the 6 months ended 30 June 2008

| | Notes | 30 June 2008 £m | 31 December 2007 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **203.4** | 193.4 |
| Intangible assets | | **851.1** | 745.7 |
| Financial assets | | **61.1** | 60.6 |
| Trade and other receivables | | **14.8** | 11.1 |
| Employee benefits | | **25.0** | 20.3 |
| Deferred taxation | | **7.5** | 1.4 |
| | | **1,162.9** | 1,032.5 |
| **Current assets** | | | |
| Financial assets | | **-** | 0.9 |
| Trade and other receivables | | **580.3** | 456.4 |
| Cash | | **12.4** | 0.8 |
| | | **592.7** | 458.1 |
| **Total assets** | | **1,755.6** | 1,490.6 |
| **Current liabilities** | | | |
| Trade and other payables | | **754.8** | 556.9 |
| Financial liabilities | | **226.1** | 57.7 |
| Provisions | | **1.2** | 1.8 |
| Income tax payable | | **46.1** | 36.3 |
| | | **1,028.2** | 652.7 |
| **Non-current liabilities** | | | |
| Trade and other payables | | **5.8** | 9.2 |
| Financial liabilities | | **397.1** | 480.2 |
| Provisions | | **0.2** | 0.8 |
| Employee benefits | | **17.3** | 15.9 |
| | | **420.4** | 506.1 |
| **Total liabilities** | | **1,448.6** | 1,158.8 |
| **Net assets** | | **307.0** | 331.8 |
| **Capital and reserves** | | | |
| Issued share capital | 7 | **12.7** | 12.6 |
| Share premium | 7 | **391.5** | 374.9 |
| Employee benefit trust | 7 | **(0.2)** | - |
| Capital redemption reserve | 7 | **1.8** | 1.8 |
| Foreign currency translation | 7 | **1.5** | 0.7 |
| Net unrealised gains reserve | 7 | **(11.7)** | 4.0 |
| Retained earnings | 7 | **(88.6)** | (62.2) |
| **Equity shareholders' funds** | | **307.0** | 331.8 |

# Half year condensed consolidated cash flow statement

for the 6 months ended 30 June 2008

| | Notes | 30 June 2008 £m | 30 June 2007 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit on continuing activities before interest and taxation | | **135.7** | 114.8 |
| Depreciation | | **25.4** | 21.5 |
| Amortisation of intangible assets | | **4.9** | 4.1 |
| Share based payment expense | | **3.7** | 4.1 |
| Pension charge | | **9.2** | 7.3 |
| Pension contributions | | **(13.0)** | (10.3) |
| Movement in provisions | | **(1.7)** | (0.6) |
| Movement in debtors and creditors | | **9.6** | 4.4 |
| **Cash generated from operations** | | **173.8** | 145.3 |
| Income tax paid | | **(18.8)** | (15.2) |
| Net interest paid | | **(20.2)** | (15.1) |
| **Cash generated from operations after interest** | | **134.8** | 115.0 |
| **Net cash used in investing activities** | | | |
| Purchase of property, plant and equipment | | **(33.0)** | (31.7) |
| Investment loan | | **(2.0)** | - |
| Acquisition of subsidiary undertakings and businesses | | **(66.0)** | (54.0) |
| Cash acquired with subsidiary undertakings | | **13.5** | 2.4 |
| Purchase of financial assets | | **-** | (4.6) |
| | | **(87.5)** | (87.9) |
| **Net cash used in financing activities** | | | |
| Issue of ordinary share capital | **7** | **16.7** | 26.7 |
| Share buybacks | **7** | **(66.2)** | (29.4) |
| Share transaction costs | **7** | **(0.4)** | (0.1) |
| Dividends paid | **5** | **(48.8)** | (39.2) |
| Capital element of finance lease rental payments | **8** | **(0.1)** | (0.2) |
| Asset based securitised financing arrangement | | **0.6** | 8.3 |
| Repayment of loan notes and long term loans | **8** | **(0.4)** | (33.2) |
| | | **(98.6)** | (67.1) |
| **Net decrease in cash and cash equivalents** | | **(51.3)** | (40.0) |
| Cash and cash equivalents at the beginning of the period | | **(45.3)** | 9.2 |
| **Cash and cash equivalents at 30 June** | | **(96.6)** | (30.8) |
| **Cash and cash equivalents comprise:** | | | |
| Overdraft | **8** | **(109.0)** | (30.8) |
| Cash at bank and in hand | **8** | **12.4** | - |
| **Total** | | **(96.6)** | (30.8) |

# Notes to the half year condensed consolidated financial statements

for the 6 months ended 30 June 2008

**1. Corporate information**

The Capita Group Plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The half year condensed consolidated financial statements of the company and its subsidiaries ('the Group') for the 6 months ended 30 June 2008 were authorised for issue in accordance with a resolution of the Directors on 23 July 2008.

**2. Basis of preparation and accounting policies**

**(a) Basis of preparation**

The half year condensed consolidated financial statements for the 6 months ended 30 June 2008 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and with IAS 34 Interim Financial Reporting**.**

The half year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2007, which have been prepared in accordance with IFRSs as adopted by the European Union.

This condensed consolidated half year financial information does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985 (section 434 of the Companies Act 2006). Statutory accounts for the year ended 31 December 2007 were approved by the Board of Directors on 28 February 2008 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 237 of the Companies Act 1985 (section 498 of the Companies Act 2006).

The half year condensed consolidated financial statements for the 6 months to 30 June 2008 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

**(b) Significant accounting policies**

The accounting policies adopted in the preparation of the half year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the adoption of the new interpretation, noted below.  Adoption of this interpretation did not have any effect on the financial statements of the Group.

**IFRIC 12 Service Concession Arrangements**

This interpretation, which is effective for annual periods beginning on or after 1 January 2008, provides guidance on the application of existing International Financial Reporting Standards on the accounting by operators for public-to-private service concession arrangements. Service concession arrangements being arrangements whereby a government or other body grants contracts for the supply of public services, such as roads, energy distribution, prisons or hospitals, to private operators.

### 3. Segmental information

| Analysis of segment revenue | **Six months to 30 June 2008** **£m** | Six months to 30 June 2007 £m |
|---|---|---|
| HR Solutions | **127.9** | 123.4 |
| Property Consultancy | **126.2** | 112.3 |
| Insurance and Specialist Services | **155.9** | 149.3 |
| Financial Services | **80.3** | 74.8 |
| Integrated Services | **142.2** | 152.4 |
| ICT and Multi Service Centres | **169.8** | 124.3 |
| Life & Pensions | **229.4** | 105.8 |
| Professional Services | **150.8** | 142.7 |
| | **1,182.5** | 985.0 |

| Analysis of segment result | | |
|---|---|---|
| HR Solutions | **12.1** | 12.0 |
| Property Consultancy | **10.1** | 8.9 |
| Insurance and Specialist Services | **15.5** | 13.6 |
| Financial Services | **17.8** | 16.5 |
| Integrated Services | **19.5** | 20.7 |
| ICT and Multi Service Centres | **19.2** | 15.3 |
| Life & Pensions | **23.8** | 12.0 |
| Professional Services | **22.6** | 19.9 |
| | **140.6** | 118.9 |

The comparative figures have been restated due to a reorganisation of the Group's business divisions during the period. The Directors decided this was necessary to better manage the growth in the business and to enhance service provision across the Group. The Group's ongoing operations are not subject to seasonal variations.

**4. Earnings per share**

The average number of shares in issue during the period was 606.7m (30 June 2007: 618.1m). The diluted earnings per share have been calculated on the profit for the period of £84.2m (30 June 2007: £72.6m) and an average diluted number of shares of 613.7 (30 June 2007: 632.7m). As at 23 July 2008, there were 605.5m shares in issue.

**5. Dividends paid and proposed**

The interim dividend of 4.8p (2007: 4.0p) per share (not recognised as a liability at 30 June 2008) will be payable on 3 October 2008 to ordinary shareholders on the register at the close of business on 29 August 2008. The dividend disclosed in the cash flow statement represents the final ordinary dividend of 8.0p (2007: 6.3p) per share as proposed in the 31 December 2007 financial statements and approved at the Group’s AGM (not recognised as a liability at 31 December 2007).

**6. Business combinations**
The Group has made a number of acquisitions in the period, which are shown in aggregate below:

| | Book values | Fair value adjustments | Provisional fair value to Group |
|---|---|---|---|
| | £m | £m | £m |
| Property, plant and equipment | 2.0 | (0.3) | 1.7 |
| Deferred tax | 1.4 | - | 1.4 |
| Debtors | 25.7 | (0.6) | 25.1 |
| Cash and short term deposits | 13.5 | - | 13.5 |
| Creditors | (20.8) | (0.7) | (21.5) |
| Provisions | (0.5) | (0.3) | (0.8) |
| Corporation tax | (0.5) | 0.1 | (0.4) |
| Net assets | 20.8 | (1.8) | 19.0 |
| Goodwill arising on acquisition | | | 111.0 |
| | | | 130.0 |
| Discharged by: | | | |
| Cash | | | 63.0 |
| Loan notes | | | 3.5 |
| Deferred consideration accrued | | | 63.5 |
| | | | 130.0 |

The full exercise to determine the intangible assets acquired is still to be completed, thus the above numbers are provisional; this exercise will be finalised for the full year financial statements. Further cash consideration of £3.0m was paid in respect of deferred consideration relating to previous acquisitions. The full amount had been accrued in the previous year and consequently there was no impact on goodwill. Loan notes of £1.4m were issued during the period in respect of deferred consideration that was accrued for in the previous year. This also had no impact on goodwill.

The contribution to the Group's profit before amortisation and tax in the six months to 30 June 2008 from these acquisitions was £2m. If the acquisitions had been included from the beginning of the period, the Group's profit before amortisation and tax would have been £121.9m.

## 7. Capital and reserves - reconciliation of movements in equity

| | Share capital | Share premium | Employee benefit trust | Capital redemption reserve | Retained earnings | Foreign currency translation reserve | Net unrealised gains reserve | Total equity | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 January 2007 | 12.3 | 308.1 | - | 1.7 | 4.0 | (0.4) | - | 325.7 | 0.1 | 325.8 |
| Total recognised income and expense for the year | - | - | - | - | 99.8 | (0.1) | - | 99.7 | - | 99.7 |
| Share based payment | - | - | - | - | 4.1 | - | - | 4.1 | - | 4.1 |
| Purchase of own shares - cancelled | (0.1) | - | - | 0.1 | (29.4) | - | - | (29.4) | - | (29.4) |
| Share transaction costs | - | - | - | - | (0.1) | - | - | (0.1) | - | (0.1) |
| Shares issued | 0.3 | 26.4 | - | - | - | - | - | 26.7 | - | 26.7 |
| Equity dividends paid | - | - | - | - | (39.2) | - | - | (39.2) | - | (39.2) |
| At 30 June 2007 | 12.5 | 334.5 | - | 1.8 | 39.2 | (0.5) | - | 387.5 | 0.1 | 387.6 |
| At 1 January 2008 | 12.6 | 374.9 | - | 1.8 | (62.2) | 0.7 | 4.0 | 331.8 | | 331.8 |
| Total recognised income and expense for the year | - | - | - | - | 85.1 | 0.8 | (15.7) | 70.2 | - | 70.2 |
| Share based payment | - | - | - | - | 3.7 | - | - | 3.7 | - | 3.7 |
| Purchase of own shares | - | - | (0.2) | - | (66.0) | - | - | (66.2) | - | (66.2) |
| Share transaction costs | - | - | - | - | (0.4) | - | - | (0.4) | - | (0.4) |
| Shares issued | 0.1 | 16.6 | - | - | - | - | - | 16.7 | - | 16.7 |
| Equity dividends paid | - | - | - | - | (48.8) | - | - | (48.8) | | (48.8) |
| At 30 June 2008 | 12.7 | 391.5 | (0.2) | 1.8 | (88.6) | 1.5 | (11.7) | 307.0 | - | 307.0 |

## 8. Movement in net debt

| | Net debt at 1 January 2008 | Acquisitions in period (exc. Cash) | Cash flow movements | Non-cash flow movements | Net debt at 30 June 2008 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Cash and cash equivalents | **0.8** | **-** | **11.6** | **-** | **12.4** |
| Overdrafts | **(46.1)** | **-** | **(62.9)** | **-** | **(109.0)** |
| Cash | **(45.3)** | **-** | **(51.3)** | **-** | **(96.6)** |
| Loan notes | **(1.7)** | **-** | **0.4** | **(4.9)** | **(6.2)** |
| Bonds | **(461.1)** | **-** | **-** | **(2.1)** | **(463.2)** |
| Currency swaps | **(18.1)** | **-** | **-** | **2.6** | **(15.5)** |
| Interest rate swaps | **0.1** | **-** | **-** | **(0.5)** | **(0.4)** |
| Finance leases | **(0.2)** | **-** | **0.1** | **-** | **(0.1)** |
| Sub-total net debt | **(526.3)** | **-** | **(50.8)** | **(4.9)** | **(582.0)** |
| Asset based securitised finance | **(9.7)** | **-** | **1.4** | **-** | **(8.3)** |
| | **(536.0)** | **-** | **(49.4)** | **(4.9)** | **(590.3)** |

| | Net debt at 1 January 2007 | Acquisitions in period (exc. Cash) | Cash flow movements | Non-cash movements | Net debt at 30 June 2007 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Cash and cash equivalents | 9.7 | - | (9.7) | - | **-** |
| Overdrafts | (0.5) | - | (30.3) | - | (30.8) |
| Cash | 9.2 | - | (40.0) | - | (30.8) |
| Loan notes | (22.2) | - | 22.2 | (5.9) | (5.9) |
| Long term debt | - | (11.0) | 11.0 | - | - |
| Bonds | (372.0) | - | - | 29.3 | (342.7) |
| Currency swaps | (6.4) | - | - | (28.5) | (34.9) |
| Interest rate swaps | - | - | - | (0.8) | (0.8) |
| Finance leases | (0.5) | - | 0.2 | - | (0.3) |
| Sub-total net debt | (391.9) | (11.0) | (6.6) | (5.9) | (415.4) |
| Asset based securitised finance | (27.5) | - | (8.3) | - | (35.8) |
| | (419.4) | (11.0) | (14.9) | (5.9) | (451.2) |

## 9. Capital commitments

At 30 June 2008, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2007: £nil).

**10. Related party transactions**
Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The only related party transactions requiring disclosure are details of key management personnel compensation (including Directors of the parent company). These details are set out in the table below.

Compensation of key management personnel (including Directors of parent company)

| | **Six months to 30 June 2008** | Six months to 30 June 2007 |
|---|---|---|
| Short term employment benefits | **1.5** | 1.9 |
| Post employment benefits | **0.1** | 0.1 |
| Share based payments | **2.3** | 1.9 |
| | **3.9** | 3.9 |

Gains on share options exercised in the period by key management personnel totalled £8.7m (2007: £2.3m).

## Statement of Directors' responsibilities

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Half Year Management Report includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom Financial Services Authority.

The names and functions of the Directors of The Capita Group Plc are as listed in the Group's Annual Report for 2007. A list of current directors is maintained on the Group website: www.capita.co.uk.

By order of the Board

| **P R M Pindar** | **G M Hurst** |
|---|---|
| Chief Executive | Group Finance Director |
| 23 July 2008 | |