

Corporate governance

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

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

Independence of the Board (A.3.2) – Following the appointment of Eric Walters (a Non-Executive Director of The Capita Group Plc since January 2001) as Non-Executive Chairman on 1 August 2006, the Board, excluding the Chairman, consists of four Executive and three Non-Executive Directors and as such does not fully comply with the Code regarding the balance of the Board. However, the Board believes that the current composition is in line with the principles of the Code as it is led by a Non-Executive Chairman and its composition remains suitable for the nature and size of the Group. We believe that the collective skills, experience and approach to running the business are appropriate for driving the Group forward and achieving the Group's goals. We constantly review the composition of the Board to ensure that it continues to meet the needs of the Group.

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

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

Board responsibilities and effectiveness

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

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

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

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

Board composition

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

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

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

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

Director induction and professional development

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

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

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

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

Board performance evaluation

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

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

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

Appointment, re-appointment and removal of Directors

Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Acts.

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

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

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

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

Nomination Committee

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

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

Audit Committee

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

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

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

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

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

Remuneration Committee

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

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

Board and committee members, frequency of meetings and attendance

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

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

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

Dialogue with institutional shareholders

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

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

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

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

Social and environmental responsibility

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

Corporate governance

Internal control

The Group Board is responsible for the Group's system of internal control and for regularly reviewing its effectiveness. Procedures have been designed for, inter alia, the safeguarding of assets against unauthorised use or disposition, maintaining proper accounting records and the reliability of financial information used within the business or for publication. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud. There is an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board. The Group's key internal control procedures include the following:

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

- In addition, regulatory risks and compliance matters are overseen by the Group compliance function reporting through the Group Finance Director and independently to the Audit Committee. The Group compliance team, in conjunction with dedicated compliance teams within the relevant businesses, independently monitor regulatory compliance by way of risk-based work programmes and support operations in identifying and mitigating regulatory risks as an integral part of the Group risk framework
- Both the Group compliance function and the Group risk and business assurance function routinely appraise the Group's senior management and the Audit Committee of their work programmes and findings.

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

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

Additional Information

Group activities

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

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

Profits and dividends

The Group profit before taxation and after amortisation amounted to £228.7m (2006: £193.2m). The Directors recommend a final dividend of 8.0p per share (2006: 6.3p per share) to be paid on 9 May 2008 to ordinary shareholders on the Register on 28 March 2008. This gives a total dividend for the year of 12.0p per share (2006: 9.0p per share). Additionally, a special dividend of 25.0p per share was paid in October 2007.

Directors

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

Voting rights and share capital

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

	Percentage of total shares	Nature of holding
Baillie Gifford & Co	4.94	Indirect
FMR LLC	4.78	Indirect
Fidelity International Limited	3.93	Indirect
Lloyds TSB Group Plc	3.93	Indirect
Legal & General Group Plc	3.58	Direct

At the date of this report, 609.3m ordinary shares of 2¹/₂p each have been issued and are fully paid up and are quoted on the London Stock Exchange. During the year ended 31 December 2007, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 18.1m new ordinary shares. A further 0.3m new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the Annual General Meeting in May 2007 and again at the Extraordinary General Meeting in September 2007. During the year the Company acquired 6.6m (2006: 52.9m) ordinary shares, representing 1% of the issued share capital (see note 26 on page 93). During the year 6.55m shares, representing 1% of the issued share capital, were cancelled and the remaining 41,163 share are held in treasury.

The Company's share capital was consolidated on 17 September 2007, with every 31 existing ordinary shares replaced with 30 new ordinary shares. The consolidation resulted in a reduction in the number of shares in issue by 19.96m shares.

Rights and restrictions attaching to shares

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

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

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

Restrictions on transfer of shares

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

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

Going concern

The Board of Directors has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be retrained for other positions in the Group.

Employee involvement

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

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

The Group grants share options to senior employees, on a discretionary basis, in order to reward their long term commitment to the Group. The granting of all share options is subject to the approval of the Remuneration Committee. The share option schemes have been a key factor in attracting, retaining and motivating senior employees across the Group.

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

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

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

Payment of suppliers

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

Charitable and political donations

During the year charitable donations amounted to £0.5m (2006: £0.5m). No political contributions were made. Further details of the Group's charitable donations and work within the community can be found on page 32.

Financial instruments

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

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

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

Corporate governance

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

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

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

Qualifying third party indemnity provisions for the benefit of Directors

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

Auditors

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

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

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

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

Powers of Directors

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

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

Change of control

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

The Group has a number of borrowing facilities provided by various banks and other financial institutions. The bonds issued by the Group contain a change of control provision which requires prepayment of the full facility amount in the event that a change of control occurs and the Group's credit rating falls below investment grade. The Group currently has £461.1m of bonds in issue.

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

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

Company law requires the Directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

The Directors confirm that the accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at anytime the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Annual General Meeting

The 2008 Annual General Meeting of the Company will be held at Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB, on 6 May 2008. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which was sent to shareholders with the Annual Report and Accounts and includes notes explaining the business to be transacted. In May 2007, shareholders granted authority for the Company to purchase up to 59.88m ordinary shares. This authority was renewed at the EGM in September 2007 and will expire at the conclusion of the 2008 Annual General Meeting. A resolution to renew this authority will be put to shareholders at that meeting.