

Notes to the consolidated financial statements

for the year ended 31 December 2007

1 Corporate information

The consolidated financial statements of The Capita Group Plc for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Directors on 28 February 2008. 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 37–41.

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 by 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 103–113.

(b) Basis of preparation

The consolidated financial statements have been prepared under IFRS where certain financial instruments 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 until 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 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:

- IFRS 7 Financial Instruments: Disclosure
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment.

The Group has also early adopted the following IFRIC interpretations. Adoption of these interpretations did not have any effect on the financial position of the Group.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The principal effects of these changes are as follows:

IFRS 7 – Financial Instruments: Disclosure This standard requires the Group to make disclosures to enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. As IFRS 7 is a disclosure standard, there is no impact other than enhanced disclosure, with comparative information being revised where needed.

IFRIC 9 – Reassessment of Embedded Derivatives This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, adoption of this interpretation has had no impact on the financial statements of the Group.

IFRIC 10 – Interim Financial Reporting and Impairment As of 1 January 2007, the Group adopted IFRIC 10 which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions The Group has elected to early adopt IFRIC Interpretation 11 as of 1 January 2007, insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments themselves.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction The Group has elected to early adopt IFRIC Interpretation 14 as of 1 January 2007. This interpretation provides guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of surplus that can be recognised as an asset. It also explains that when a plan is operated in an environment of statutory or contractual minimum funding requirements, and there are restrictions over the amounts that the employer can recover from the plan, an obligation to pay contributions may give rise to a liability additional to the liability that is recognised in respect of the IAS 19 deficit.