

## Notes to the consolidated financial statements

### 8 Finance revenue

	2007 £m	2006 £m
Bank interest receivable	1.2	0.4
Other interest receivable	0.4	0.6
Total finance revenue (on a historical cost basis)	1.6	1.0

### 9 Finance costs

	2007 £m	2006 £m
Loan note interest	1.1	0.8
Bonds	25.8	15.5
Bank loans and overdrafts	8.5	9.5
Other interest payable	0.2	0.1
Unwinding of interest on discounted property provision	0.1	0.1
Total finance costs (on a historical cost basis)	35.7	26.0

### 10 Income tax

The major components of income tax expense for the years ended 31 December 2007 and 2006 are:

Consolidated income statement	2007 £m	2006 £m
<b>Current income tax</b>		
Current income tax charge	61.8	53.1
Adjustment in respect of prior years	(3.0)	(4.6)
<b>Deferred income tax</b>		
Origination and reversal of temporary differences	6.6	5.3
Adjustment in respect of prior years	(2.9)	(0.3)
	62.5	53.5

### Consolidated statement of recognised income and expense

	2007 £m	2006 £m
<b>Deferred income tax related to items charged/(credited) directly to equity</b>		
Current income tax deduction on exercise of stock options in excess of share based payments	(10.0)	(7.6)
Deferred income tax on cash flow hedges	1.6	–
Deferred income tax movement in relation to share based payments	5.8	(7.2)
Deferred income tax movement in relation to actuarial gains on defined benefit plans	7.6	3.8
	5.0	(11.0)

A reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2007 and 2006 is as follows:

	2007 £m	2006 £m
Accounting profit before tax	228.7	193.2
Notional charge at UK corporation tax rate of 30% (2006: 30%)	68.6	58.0
Adjustments in respect of current income tax of prior years	(3.0)	(4.6)
Adjustments in respect of deferred tax of prior years	(2.9)	(0.3)
Non-deductible expenses	1.8	1.6
Attributable to lower tax rates in overseas jurisdictions	(1.5)	(1.2)
Attributable to reduction in corporation tax rate	(0.5)	–
At the effective tax rate of 27.3% (2006: 27.7%)	62.5	53.5
Total tax expense reported in the income statement	62.5	53.5

The tax charge for the year ended 31 December 2007 was £62.5m (2006: charge of £53.5m) and is after a prior year net credit of £3.0m resulting from the successful resolution of issues with relevant tax authorities. The tax charge is equivalent to an underlying effective tax rate of 27.3% (2006: 27.7%). The effective tax rate on profit before amortisation is 27.7% (2006: 27.7%). In addition, a net tax charge of £5.0m has been debited directly to equity including a credit of £10.0m in respect of realised stock option gains which resulted in a corresponding reduction in cash tax liabilities for the year ended 31 December 2007.

**10 Income tax (continued)****Deferred income tax**

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2007 £m	2006 £m	2007 £m	2006 £m
<b>Deferred tax liabilities</b>				
Accelerated capital allowances	(4.6)	(3.5)	3.2	0.9
Pension scheme's asset	(5.7)	–	–	–
Cash flow hedges	(1.6)	–	–	–
Fair value adjustments on acquisition	(12.6)	(10.6)	(3.3)	(1.9)
	(24.5)	(14.1)		
<b>Deferred tax assets</b>				
Share based payments	15.7	20.7	(0.8)	(2.6)
Pension schemes' liability	4.5	11.8	5.4	4.8
Provisions	5.0	3.4	(1.1)	3.3
Losses available for offset against future taxable income	0.7	0.3	0.3	0.5
	25.9	36.2		
<b>Net deferred tax asset</b>	1.4	22.1		
<b>Deferred income tax expense</b>			3.7	5.0

The Group has tax losses which arose in the UK of £11.0m (2006: £5.0m) 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 £8.5m (2006: £4.0m) of these losses, as their recoverability is uncertain.

The UK corporation tax rate will decrease from 30% to 28% from 1 April 2008. The deferred tax balance has been adjusted in the current year to reflect this change.

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:

	2007 £m	2006 £m
Net profit attributable to ordinary equity holders of the parent from operations	166.2	139.8
	2007 Number million	2006 Number million
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	613.6	626.3
Dilutive potential ordinary shares:		
Employee share options	10.3	15.0
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	623.9	641.3

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 of £172.4m (2006: £144.8m) and after amortisation of £166.2m (2006: £139.8m). They are included as they provide a better understanding of the underlying trading performance of the Group.

	2007 P	2006 P
Basic earnings per share – before amortisation	28.10	23.10
– after amortisation	27.09	22.32
Diluted earnings per share – before amortisation	27.63	22.56
– after amortisation	26.64	21.80