

Company Registration No. 2777642 (England and Wales)

**CAPITA INSURANCE SERVICES GROUP LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**



# **CAPITA INSURANCE SERVICES GROUP LIMITED**

## **COMPANY INFORMATION**

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<b>Directors</b>	P R M Pindar G M Hurst P M Doyle
<b>Secretary</b>	Capita Company Secretarial Services Limited
<b>Company number</b>	2777642
<b>Registered office</b>	71 Victoria Street Westminster London SW1H 0XA
<b>Auditors</b>	Ernst & Young LLP 1 More London Place London SE1 2AF
<b>Bankers</b>	Barclays Bank Plc 154 Lombard Street London EC3V 9EX
<b>Solicitors</b>	Herbert Smith Exchange House Primrose Street London EC2A 2HS

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# CAPITA INSURANCE SERVICES GROUP LIMITED

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# **CAPITA INSURANCE SERVICES GROUP LIMITED**

## **DIRECTORS' REPORT**

***FOR THE YEAR ENDED 31 DECEMBER 2005***

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The directors present their report and financial statements for the year ended 31 December 2005.

### **Principal activity and review of the business**

Capita Insurance Services Group Limited was a leading UK provider of integrated professional support services solutions to the general insurance sector. As noted below, following a group restructuring the trading activities of the company have been transferred to fellow subsidiary undertakings of the ultimate parent undertaking, The Capita Group Plc.

### **Results and dividends**

The results for the year are set out on page 5.

An interim ordinary dividend was paid amounting to £10,000,000 (2004:£nil).

### **Post balance sheet events**

In July 2006 (effective from January 2006), there was a group restructuring which involved the transfer of various investments both into and out of the company from and to fellow subsidiary undertakings of the ultimate parent undertaking, The Capita Group Plc. These transfers of investments were at book value and settled by intercompany transactions. The principal investments transferred out of the company were Capita Commercial Services Limited (formerly Capita Insurance Services Limited), Capita London Market Services Limited and BDML Connect Limited. The principal investments transferred into the company were Brownsword Investigations Limited and Pinco 1853 Limited.

In addition, in July 2006 the company transferred at book value by intercompany transaction the business, assets, liabilities and staff of its entire trading activities to fellow subsidiary undertakings of the ultimate parent undertaking.

### **Directors**

The following directors have held office since 1 January 2005:

P R M Pindar

G M Hurst

P M Doyle

### **Directors' interests**

Mr Pindar, Mr Hurst and Mr Doyle are directors of the ultimate parent undertaking, The Capita Group Plc, and details of their interests are included in the financial statements of that company.

### **Charitable donations**

During the year the company contributed £2,620 (2004: £810) to charitable purposes.

### **Employee involvement**

Review meetings are held with employees to discuss business developments, the financial position and prospects for the company. Opportunity is given at these meetings for senior executives to be questioned about matters that concern the employees.

# **CAPITA INSURANCE SERVICES GROUP LIMITED**

## **DIRECTORS' REPORT (CONTINUED)** **FOR THE YEAR ENDED 31 DECEMBER 2005**

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### **Disabled persons**

The company has continued its policy of offering equal rights to employment, training, career development and promotion to all their employees including disabled employees. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

### **Creditor payment policy**

It is the company's policy, wherever possible, to pay suppliers in accordance with the suppliers' contract terms. The company had an average of 33 days' purchases (2004: 33 days' purchases) outstanding in trade creditors.

### **Auditors**

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

### **Directors' responsibilities**

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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; and
- each director 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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



G M Hurst

**Director**

20 October 2006

# **CAPITA INSURANCE SERVICES GROUP LIMITED**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAPITA INSURANCE SERVICES GROUP LIMITED**

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We have audited the company's financial statements for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the directors and auditors**

The directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# **CAPITA INSURANCE SERVICES GROUP LIMITED**

## **INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF CAPITA INSURANCE SERVICES GROUP LIMITED**

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### **Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP

Registered Auditor

London

*20 October 2006*

# CAPITA INSURANCE SERVICES GROUP LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

		2005	2004
	Notes	£'000	Restated £'000
Turnover	2	102,245	79,040
Administrative expenses		(73,799)	(69,524)
Other operating income		-	(1)
<b>Operating profit before exceptional item</b>	<b>4</b>	<b>28,446</b>	<b>9,515</b>
Exceptional item - loss on disposal of business	3	-	(213)
<b>Profit on ordinary activities before interest</b>		<b>28,446</b>	<b>9,302</b>
Investment income	5	3,800	-
Interest payable and similar charges	6	(1)	(81)
<b>Profit on ordinary activities before taxation</b>		<b>32,245</b>	<b>9,221</b>
Tax on profit on ordinary activities	7	(6,824)	(3,184)
<b>Profit on ordinary activities after taxation</b>		<b>25,421</b>	<b>6,037</b>

The profit and loss account has been prepared on the basis that all operations have been discontinued.



# CAPITA INSURANCE SERVICES GROUP LIMITED

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2005

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	Notes	2005 £'000	2004 £'000
Profit for the financial year		25,421	6,037
Prior year adjustment	19	<u>(3,800)</u>	<u>-</u>
Total gains and losses recognised since last financial statements		<u>21,621</u>	<u>6,037</u>

# CAPITA INSURANCE SERVICES GROUP LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2005

		2005	2004
	Notes	£'000	Restated £'000
<b>Fixed assets</b>			
Intangible assets	9	4,736	5,632
Tangible assets	10	5,384	5,577
Investments	11	113,248	85,286
		<u>123,368</u>	<u>96,495</u>
<b>Current assets</b>			
Work in progress	12	2,106	4,444
Debtors	13	38,595	38,906
Cash at bank and in hand		33,571	18,594
		<u>74,272</u>	<u>61,944</u>
<b>Creditors: amounts falling due within one year</b>	14	(64,606)	(40,621)
<b>Net current assets</b>		<u>9,666</u>	<u>21,323</u>
<b>Total assets less current liabilities</b>		<u>133,034</u>	<u>117,818</u>
<b>Provisions for liabilities and charges</b>	15	(294)	(499)
		<u>132,740</u>	<u>117,319</u>
<b>Capital and reserves</b>			
Called up share capital	17	95,588	95,588
Share premium account	18	28,856	28,856
Profit and loss account	18	8,296	(7,125)
<b>Shareholders' funds - equity interests</b>	19	<u>132,740</u>	<u>117,319</u>

The financial statements were approved by the Board on 20 October 2006

  
G.M. Hurst  
Director

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The company has not produced a cashflow statement on the basis that the ultimate parent undertaking, The Capita Group Plc, has prepared a group cashflow statement in accordance with FRS1 (revised).

The accounts present information about the company as an individual undertaking and not about its group as the company has taken advantage of the exemption of Section 228 of the Companies Act 1985 not to prepare group accounts.

#### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with accounting standards, as defined in the Companies Act 1985, applicable in the United Kingdom.

The financial statements comply with the following new Financial Reporting Standard issued by the UK Accounting Standards Board. FRS21 - 'Events after the balance sheet date'. This standard, which is mandatory for accounting periods beginning on or after 1 January 2005, requires that dividends declared after the balance sheet date should not be reported as liabilities. The standard instead requires that proposed dividends should be disclosed in the notes to the financial statements.

#### 1.3 Turnover

Turnover represents the amounts receivable for goods and services net of VAT and trade discounts.

#### 1.4 Goodwill

Goodwill arising on acquisitions represents the excess of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is amortised through the profit and loss account over its useful economic life that is considered to be 20 years. It is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### 1.5 Other intangibles

Other intangible assets are amortised over the life of the contract to which they relate and are treated as depreciating assets.

#### 1.6 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Land and buildings Freehold	50 years
Computer equipment/plant and machinery	3 to 10 years
Office equipment/re-furbishment	4 to 5 years
Motor vehicles	3 to 5 years

# **CAPITA INSURANCE SERVICES GROUP LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)** **FOR THE YEAR ENDED 31 DECEMBER 2005**

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### **1 Accounting policies**

**(continued)**

#### **1.7 Leasing**

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements that transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases.

#### **1.8 Investments**

Fixed asset investments are stated at cost less provisions for impairment.

#### **1.9 Work in progress**

Work in progress is valued at the lower of cost and net realisable value. Cost includes the cost of direct materials and labour plus attributable overheads based on a normal level of activity. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

#### **1.10 Pensions**

The company maintains a number of contracted-out defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the company. The company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking of the company, which pays the group liability centrally. Any unpaid contributions at the year end have been accrued in the accounts of that company.

The company also makes contributions to multi-employer defined benefit schemes operated by the group. However, the company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent basis. Consequently, in accordance with FRS 17, the company accounts for contributions to the schemes as if they were defined contribution schemes.

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

### 1 Accounting policies

(continued)

#### 1.11 Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, taxation, with the following exceptions:

- Provision is made for taxation on gains arising from the revaluation (and similar fair value adjustments) of fixed assets and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more or less likely than not that the taxable gain will be rolled over into replacement assets and charged to taxation only where the replacement assets are sold;

- Deferred taxation assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date.

#### 1.12 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

#### 1.13 Related party transactions

The company has not prepared related party transactions disclosure on the basis that The Capita Group Plc owns at least 90% of the voting rights of the company. The consolidated financial statements of The Capita Group Plc are publicly available in accordance with FRS8.

### 2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

### 3 Operating expenses - exceptional item

	2005	2004
	£'000	£'000
Loss on sale of primary healthcare business	-	213

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

<b>4</b>	<b>Operating profit</b>	<b>2005</b>	<b>2004</b>
		<b>£'000</b>	<b>£'000</b>
	Operating profit is stated after charging:		
	Amortisation of intangible assets	4,896	2,955
	Depreciation of tangible assets	944	1,144
	Loss on foreign exchange transactions	-	1
	Operating lease rentals		
	- Plant and machinery	1,869	899
	- Land and buildings	4,845	6,453
		<u>          </u>	<u>          </u>

Audit fees for the period were borne by the ultimate parent undertaking, The Capita Group Plc.

<b>5</b>	<b>Investment income</b>	<b>2005</b>	<b>2004</b>
		<b>£'000</b>	<b>£'000</b>
	Income from shares in group undertakings	3,800	-
		<u>          </u>	<u>          </u>

<b>6</b>	<b>Interest payable and similar charges</b>	<b>2005</b>	<b>2004</b>
		<b>£'000</b>	<b>£'000</b>
	On bank loans and overdrafts	-	81
	Other interest	1	-
		<u>          </u>	<u>          </u>
		1	81
		<u>          </u>	<u>          </u>

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

7	Taxation	2005 £'000	2004 £'000
	<b>Domestic current year tax</b>		
	U.K. corporation tax	8,047	3,077
	Adjustment for prior years	(1,385)	(417)
	<b>Current tax charge</b>	<u>6,662</u>	<u>2,660</u>
	<b>Deferred tax</b>		
	Deferred tax charge/(credit) for the current year	551	(107)
	Deferred tax adjustment in respect of previous year	(389)	631
		<u>162</u>	<u>524</u>
	<b>Tax charge for the year</b>	<u>6,824</u>	<u>3,184</u>
	<b>Factors affecting the tax charge for the year</b>		
	Profit on ordinary activities before taxation	<u>32,245</u>	<u>9,221</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2004: 30.00%)	<u>9,674</u>	<u>2,766</u>
	Effects of:		
	Non deductible expenses	55	95
	Depreciation in excess of capital allowances	-	463
	Capital allowances in excess of depreciation	(284)	-
	Capital cost written off in profit and loss	-	(77)
	Adjustments to previous periods	(1,385)	(417)
	Provisions charged but not used	-	(170)
	Dividends and distributions received	(1,140)	-
	Other timing differences	(258)	-
		<u>(3,012)</u>	<u>(106)</u>
	<b>Current tax charge</b>	<u>6,662</u>	<u>2,660</u>

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

8	Dividends	2005 £'000	2004 £'000
	Ordinary interim paid	10,000	-

The directors do not recommend payment of a final dividend (2004: £nil).

9	Intangible fixed assets	Other intangibles £'000	Goodwill £'000	Total £'000
	<b>Cost</b>			
	At 1 January 2005	8,000	587	8,587
	Additions	4,000	-	4,000
	At 31 December 2005	12,000	587	12,587
	<b>Amortisation</b>			
	At 1 January 2005	2,933	22	2,955
	Charge for the year	4,867	29	4,896
	At 31 December 2005	7,800	51	7,851
	<b>Net book value</b>			
	At 31 December 2005	4,200	536	4,736
	At 31 December 2004	5,067	565	5,632

The 'other intangibles' asset represents consideration paid to Aon Health Solutions to acquire the contract for the administration of miners' personal injury liability claims on behalf of the Department of Trade and Industry.



# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

### 10 Tangible fixed assets

	Land and buildings Freehold £'000	Computer equipment/plant and machinery £'000	Office equipment/re- furbishment £'000	Total £'000
<b>Cost</b>				
At 1 January 2005	23	4,938	3,081	8,042
Transferred to group undertakings	-	(887)	(120)	(1,007)
Additions	-	904	547	1,451
At 31 December 2005	23	4,955	3,508	8,486
<b>Depreciation</b>				
At 1 January 2005	6	1,286	1,173	2,465
Transferred to group undertakings	-	(293)	(14)	(307)
Charge for the year	2	533	409	944
At 31 December 2005	8	1,526	1,568	3,102
<b>Net book value</b>				
At 31 December 2005	15	3,429	1,940	5,384
At 31 December 2004	17	3,652	1,908	5,577

Included above are assets held under finance leases or hire purchase contracts as follows:

	Office equipment/re- furbishment £'000
<b>Net book values</b>	
At 31 December 2005	63
At 31 December 2004	91
<b>Depreciation charge for the year</b>	
At 31 December 2005	28
At 31 December 2004	28

During the year, computer equipment was transferred to a fellow subsidiary undertaking at net book value to reflect where the economic benefit from ownership of those assets resides.

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

### 11 Fixed asset investments

	Shares in subsidiary undertakings £'000
<b>Cost</b>	
At 1 January 2005	85,286
Additions	27,962
	<hr/>
At 31 December 2005	113,248
	<hr/>

### Acquisition table in respect of BDML Connect Limited

	Book value £'000	Accounting policy £'000	Fair value adjustment £'000	Fair value to the group £'000
Intangible fixed assets	1,547	(1,547)	-	-
Tangible fixed assets	1,044	(182)	(134)	728
Debtors	38,565	(637)	-	37,928
Cash & cash equivalents	265	-	-	265
Creditors & provisions	(39,564)	(849)	(280)	(40,693)
Taxation	415	-	-	415
Deferred taxation	939	-	-	939
	<hr/>	<hr/>	<hr/>	<hr/>
				(418)
Goodwill				26,359
				<hr/>
Consideration				25,941
				<hr/>
Discharged by:				
Cash				25,941
				<hr/>

### Principal holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Class	Shares held %
<b>Subsidiary undertakings</b>			
Capita Insurance Services Limited	England	Ordinary	100.00
Capita London Market Services Limited	England	Ordinary	100.00
Capita Syndicate Management Limited	England	Ordinary	100.00
Brownsword Limited	England	Ordinary	100.00
BDML Connect Limited	England	Ordinary	100.00

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

11 Fixed asset investments				(continued)
Capita Aurora Limited (indirectly held)	England	Ordinary	100.00	
Capita Aurora Leasing Limited (indirectly held)	England	Ordinary	100.00	
Capita Captive Management Services Limited	Guernsey	Ordinary	99.98	

The additions represent the acquisition of BDML Connect Limited for a consideration of £25.9 million, shown in the table above, together with the purchase of 99.98% of the share capital of Capita Captive Management Services for a consideration of £21,000. In addition, the company invested a further £2.0m in BDML Connect Limited as a cash injection in return for the issue of further shares.

The fair value and accounting policy adjustments reflect adjustments necessary to comply with the Group's accounting policies in respect of provisions, the estimated useful lives of assets, the Group's estimates of the fair value of the fixed assets acquired and estimates of liabilities in respect of accruals and other liabilities not previously recognised.

12 Work in progress	2005	2004
	£'000	£'000
Work in progress	2,106	4,444

Replacement cost is not significantly different to the amounts above.

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

13 Debtors	2005 £'000	2004 £'000
Trade debtors	3,204	2,770
Amounts owed by parent and fellow subsidiary undertakings	20,588	29,026
Other debtors	10,072	2,269
Prepayments and accrued income	3,387	3,335
Deferred tax asset (see note 15)	1,344	1,506
	<u>38,595</u>	<u>38,906</u>

Amounts falling due after more than one year and included in the debtors above are:

	2005 £'000	2004 £'000
Prepayments	<u>162</u>	<u>-</u>

14 Creditors: amounts falling due within one year	2005 £'000	2004 £'000
Trade creditors	1,481	1,367
Amounts owed to parent and fellow subsidiary undertakings	37,579	17,660
Corporation tax	7,793	3,372
Other taxes and social security costs	4,281	2,524
Other creditors	22	105
Accruals and deferred income	13,450	15,593
	<u>64,606</u>	<u>40,621</u>

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

### 15 Provisions for liabilities and charges

	Property provision £'000
Balance at 1 January 2005	499
Utilised	(205)
	<hr/>
Balance at 31 December 2005	294
	<hr/>

The property provision was made on a discounted basis for the future rent expense and related cost of leasehold property where the space is vacant or currently not being used for ongoing operations. The expenditure is expected to be incurred over the remaining periods of the leases, which range from one to six years.

The deferred tax asset (included in the debtors, note 13) is made up as follows:

	2005 £'000	
Balance at 1 January 2005	(1,506)	
Profit and loss account	162	
	<hr/>	
Balance at 31 December 2005	(1,344)	
	<hr/>	
	2005 £'000	2004 £'000
Decelerated capital allowances	(472)	(1,361)
Other timing differences	(872)	(145)
	<hr/>	<hr/>
	(1,344)	(1,506)
	<hr/>	<hr/>

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

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### 16 Pension costs

The company offers both defined benefit and defined contribution pension schemes.

Contributions in respect of the defined contribution schemes payable by the company during the year amounted to £1,530,157 (2004: £1,427,049).

The company is a member of The Capita Pension and Life Assurance Scheme (Capita scheme) and The Eastgate Assistance Retirement Benefit Scheme (Eastgate scheme), both defined benefit schemes. The pension costs for the defined benefit schemes are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit credit method. The independent qualified scheme actuaries carried out the latest full valuation of the Capita scheme as at 6 April 2005 (market value of assets £239.5m) and the Eastgate scheme at 1 January 2003 (market value of assets £6.4m) and the valuations were updated to 31 December 2005. Surpluses or deficits on the pension schemes arising from the actuarial valuations are spread over the average service lives of the members on a straight-line basis.

The pension charge for the defined benefit schemes for the year was £844,305 (2004: £672,740). The current agreed employer contribution rate equates to an average of 16.7%.

The major assumptions for the valuations at 31 December 2005 were as follows: expected rates of return on scheme assets: (i) equities/hedged funds/absolute returns - 7.00% (both schemes); (ii) bonds - 4.40% (Capita scheme) 4.80% (Eastgate scheme); (iii) property - 6.60% both schemes; (iv) insured contracts - 4.80% Eastgate scheme only; (v) cash - 4.50% both schemes; rate of price inflation - 2.70% both schemes; rate of salary increase - 3.70% both schemes; rate of increase for pensions in payment - 2.70% (Capita scheme) 3.25% (Eastgate scheme); discount rate - 4.80% both schemes. Based on the full actuarial valuations, the values of the schemes' assets were sufficient to cover approximately 105% (Capita scheme) and 67% (Eastgate scheme) of the benefits accruing to members after allowing for expected future increases in wages and salaries. The results of the full actuarial valuations also showed that the schemes were in excess of 120% (Capita scheme) and 119% (Eastgate scheme) funded at the valuation date based on the methods and assumptions for the purposes of the minimum funding requirement (MFR). The valuation carried out as at 31 December 2005 indicated that The Capita scheme had a deficit of £17.3m and the Eastgate scheme had a deficit of £4.7m.

The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent basis. In accordance with FRS 17, the company therefore accounts for contributions to the scheme as if it were a defined contribution scheme. The full disclosure under FRS17/(IAS19) is available in the accounts of The Capita Group Plc.

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

17 Share capital	2005 £	2004 £
<b>Authorised</b>		
955,260,000 "A" ordinary voting shares of 10p each	95,526,000	95,526,000
1,040,000 "B" ordinary non-voting shares of 10p each	104,000	104,000
	<u>95,630,000</u>	<u>95,630,000</u>
	<b>£'000</b>	<b>£'000</b>
<b>Allotted, called up and fully paid</b>		
955,176,242 "A" ordinary voting shares of 10p each	95,518	95,518
704,972 "B" ordinary non-voting shares of 10p each	70	70
	<u>95,588</u>	<u>95,588</u>

The "A" and "B" ordinary shares of 10p each rank pari passu in all respects with each other except voting rights.

### 18 Statement of movements on reserves

	Share premium account £'000	Profit and loss account £'000
Balance at 1 January 2005 as previously reported	28,856	(3,325)
Prior year adjustment	-	(3,800)
Balance at 1 January 2005 as restated	28,856	(7,125)
Retained profit for the year	-	15,421
Balance at 31 December 2005	<u>28,856</u>	<u>8,296</u>

# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

19 Reconciliation of movements in shareholders' funds	2005 £'000	2004 £'000
Profit for the financial year	25,421	6,037
Dividends	(10,000)	-
Net addition to shareholders' funds	15,421	6,037
Opening shareholders' funds	117,319	111,282
Closing shareholders' funds	132,740	117,319

Opening shareholders' funds were originally £121,119,000 before deducting prior year adjustments of £3,800,000.

The financial statements comply with the following new Financial Reporting Standard issued by the UK Accounting Standards Board. FRS21 - 'Events after the balance sheet date'. This standard, which is mandatory for accounting periods beginning on or after 1 January 2005, requires that dividends declared after the balance sheet date should not be reported as liabilities. The standard instead requires that proposed dividends should be disclosed in the notes to the financial statements. Consequently, the dividend receivable from a subsidiary undertaking of £3,800,000 in the year ended 31 December 2004 has been deducted from retained earnings at 31 December 2004 and included as a dividend received in the year ended 31 December 2005.

### 20 Financial commitments

At 31 December the company was committed to making the following payments under non-cancellable operating leases in the next year:

	Land and buildings		Plant and machinery	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	717	20	6	2
Between two and five years	1,194	1,985	929	665
In over five years	2,486	2,862	-	-
	4,397	4,867	935	667

### 21 Directors' emoluments

None of the directors received any remuneration from the company. Directors' emoluments were paid by other companies within The Capita Group.



# CAPITA INSURANCE SERVICES GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

### 22 Employees

#### Number of employees

The average monthly number of employees (including directors) during the year was:

	2005 Number	2004 Number
Administration	3	4
Operations	1,763	1,568
	<u>1,766</u>	<u>1,572</u>

#### Employment costs

	£'000	£'000
Wages and salaries	42,137	36,848
Social security costs	4,098	3,714
Other pension costs	2,374	2,100
	<u>48,609</u>	<u>42,662</u>

### 23 Control

The immediate parent undertaking is Capita Business Services Limited, a company registered in England and Wales and the ultimate parent undertaking is The Capita Group Plc a company registered in England and Wales. Copies of The Capita Group Plc's consolidated financial statements are available from 71 Victoria Street, London, SW1H 0XA.

### 24 Post balance sheet events

In July 2006 (effective from January 2006), there was a group restructuring which involved the transfer of various investments both into and out of the company from and to fellow subsidiary undertakings of the ultimate parent undertaking, The Capita Group Plc. These transfers of investments were at book value and settled by intercompany transactions. The principal investments transferred out of the company were Capita Commercial Services Limited (formerly Capita Insurance Services Limited), Capita London Market Services Limited and BDML Connect Limited. The principal investments transferred into the company were Brownsword Investigations Limited and Pinco 1853 Limited.

In addition, in July 2006 the company transferred at book value by intercompany transaction the business, assets, liabilities and staff of its entire trading activities to fellow subsidiary undertakings of the ultimate parent undertaking.