



Lars has a question.

Jean-Luc helps to find the answer.



Our customer approach is based on having a strong local presence in our core European geographies, with account facing teams well positioned to help guide their clients to the right answers from across the Logica organisation.

Rebecca's team are building the solution.



Our teams work across geographies, combining their deep industry knowledge and technology expertise to deliver the best solution to meet their customers' needs.

Manish and Peter are testing it.

A photograph of two men, Manish and Peter, looking intently at a computer screen. Manish, on the left, has dark, wavy hair and is wearing a white shirt. Peter, on the right, has short, light brown hair and is wearing a light-colored sweater. They are both leaning forward, focused on the screen. The background is dark and out of focus.


We continue to invest in our blended mix of onsite, onshore, nearshore and offshore resources to ensure we service our customers in the most efficient way.

The implementation affects thousands.



We recognise that the effective implementation of technology solutions and services is critical to our customers' business success.



A person wearing a white shirt and a striped tie is holding a handheld device with a yellow screen. They are pointing at the screen with their right index finger. The background shows a large window with a view of a cloudy sky. The overall scene suggests a professional or industrial setting.

By entrusting their processes,
and often their people, to us
our customers are able to
focus on their core business
and launch their products
and services faster and more
effectively.

**It will reduce Lars'
costs, manage
his risks and bring
his product to
market faster.**



**It works.
And we keep
it working.**



**It's our ability
to transform
our customers'
businesses that
lies at the heart
of what we do.**

We are Logica.

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Business review

Logica – the new name for LogicaCMG – is a leading European IT and business services company with an established international presence which meets our customers' needs.

We work closely with our customers to release their potential – enabling change that increases their efficiency, accelerates growth and manages risk. Using our deep industry knowledge, technical excellence and global delivery expertise, we help our customers build leadership positions in their markets.

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Logica key metrics 2007

Revenue

£3.1_{bn}

(2006 restated: £2.4 billion)

Operating profit

£110_m

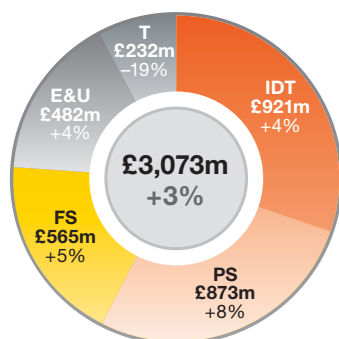
(2006 restated: £142 million)

Adjusted operating profit*

£208_m

(2006 restated: £203 million)

Revenue by market sector (pro forma growth)



IDT Industry, Distribution and Transport
PS Public Sector
FS Financial Services
E&U Energy and Utilities
T Telecoms and Media

Employees

39,000

(2006 continuing operations: 39,000)

Throughout this report, Key Performance Indicators (KPIs) are denoted by the symbol

► P 74

See pages 74 and 75 for a glossary of our KPIs

This is Logica

► Who are our customers

They are mainly European headquartered companies, with reach beyond the European market. We also have a strong presence in the public sector across Europe.

► Our principal services

Consultancy and professional services

Logica's management consulting practice is part of our full-service proposition for IT and business services. We pinpoint specific requirements and develop pragmatic solutions. Our international teams act as a catalyst for change through the delivery of end-to-end transformational programmes. We also provide our customers with dedicated technology consultants with specialist industry knowledge across all major market sectors to address their specific IT requirements.

Systems integration and development

Logica is highly regarded as a vendor-independent systems integrator. We are an effective partner for leading software providers, such as Microsoft, Oracle and SAP, contributing excellent technical skills and comprehensive industry knowledge to customers looking to utilise these core business software packages. We develop bespoke systems or integrate existing systems as needed to meet customer objectives.

IT and business process outsourcing

Logica offers a full range of IT outsourcing and business process solutions and services. We combine onsite, onshore, nearshore and offshore resources through our blended sourcing model to deliver high quality services cost effectively and efficiently.

► We focus on five industry sectors

We are deeply embedded in our chosen markets and share skills across them. For example, we develop and manage billing systems in each of our key sectors. In **Energy and Utilities** we are furthering the environmental and business agenda with smart metering and emissions management solutions. In **Financial Services** we are leading the transition to SEPA payments processing and MiFID, while our shared service centres are managing complex global IT systems for banks and insurance companies. In the **Industry, Distribution and Transport** sector we are transforming supply chains for global businesses primarily in the transport, retail and manufacturing sectors. We are active partners with **Public Sector** agencies across Europe. In **Telecoms and Media** our projects are enabling our customers to respond better to convergence.

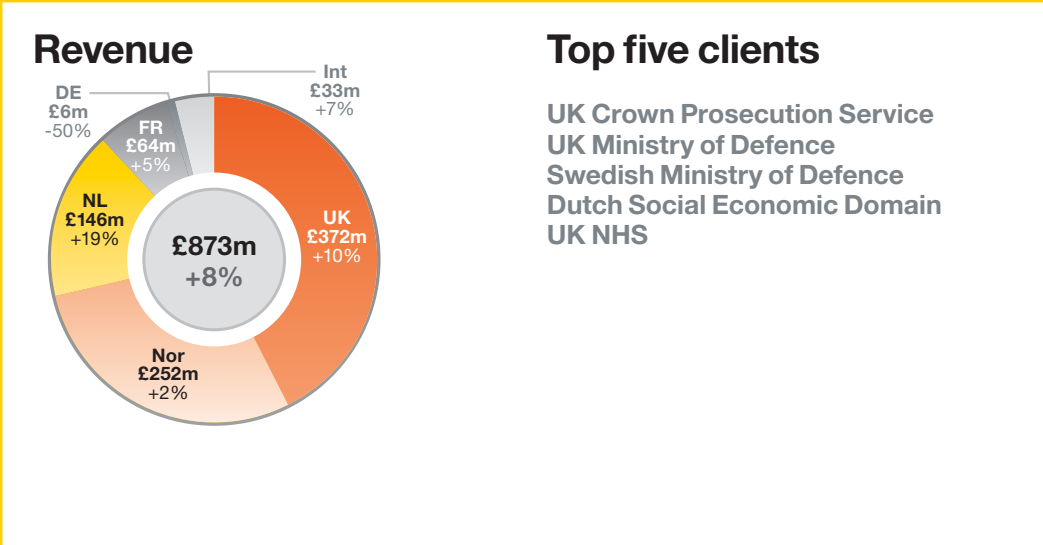
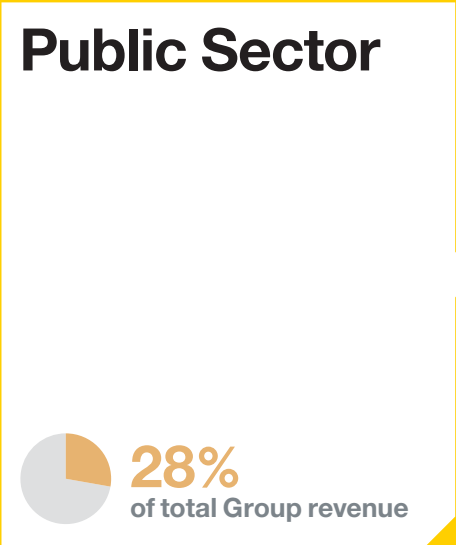
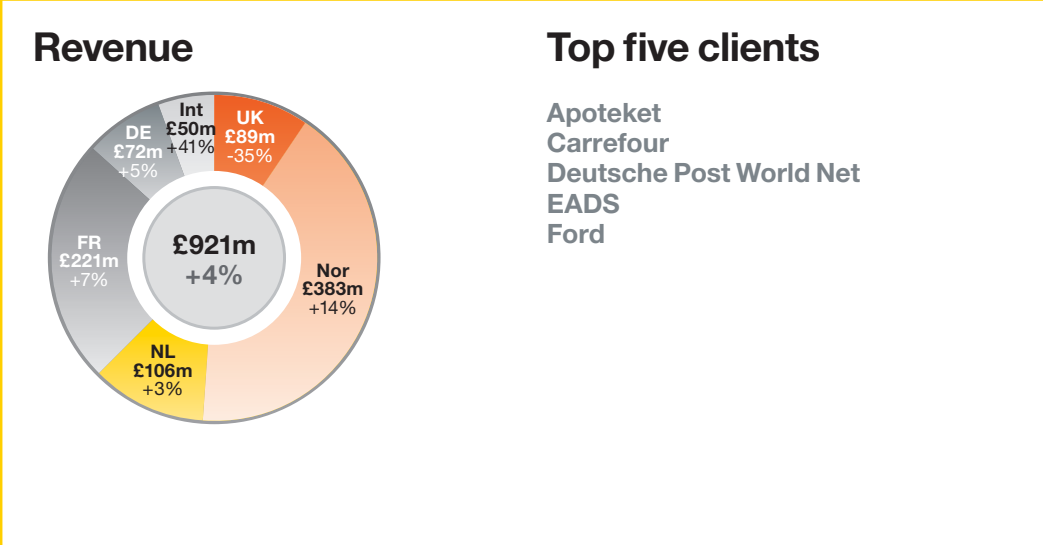
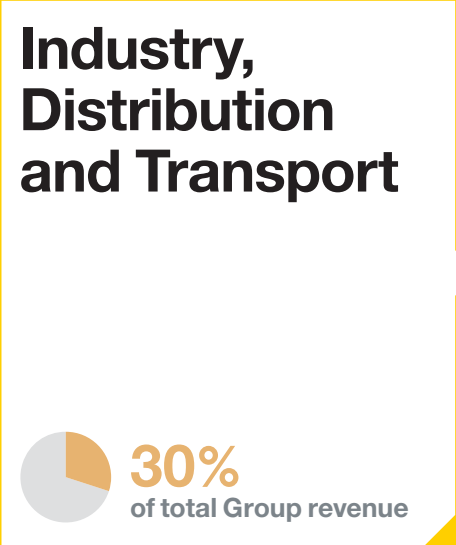
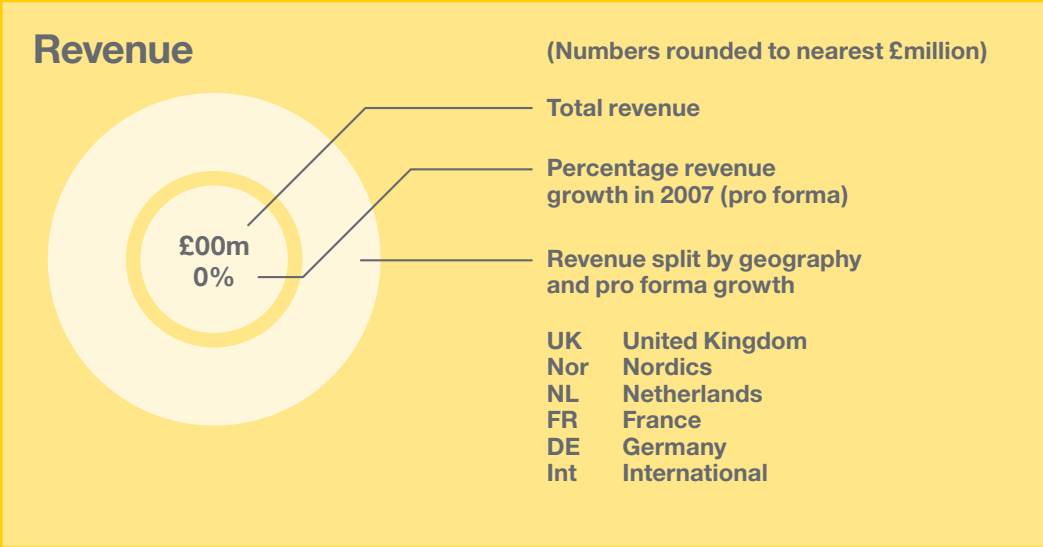
► P 12

See pages 12 to 15 for more detail on our markets by industry

* A definition of adjusted operating profit is set out on page 111 (Note 8)

Our markets by industry

We have deep knowledge across five industry sectors. Each sector accounts for between 8% and 30% of Group revenue.



Principal services

Key services we provide to our customers within this sector

Highlights of 2007

Some of the most important projects within this sector in the last 12 months

Looking ahead

Key anticipated trends within this sector

Principal services

Intelligent transport systems (ITS) including road pricing, smart card ticketing services, traffic management and smart logistics

Manufacturing IT including manufacturing executive systems (MES) and product life cycle management (PLM)

IT excellence and business transformation

Enterprise resource planning (ERP) implementations with a strong focus on SAP

Highlights of 2007

Smart card ticketing services for Scottish Executive and Centro in the UK.

Mobile ticketing on trains and platforms for French national carrier SNCF.

Application Management Services (AMS) for road pricing and back office systems at Transurban, Australia.

Road pricing back office system for Movenience in the Netherlands.

Looking ahead

Transport and logistics companies continue to require sustainable mobility services. In the transport area, ticketing and traffic management applications using Near Field Communications (NFC) and Galileo-based location services will become increasingly important.

In the retail sector, multi-channel convergence solutions and in manufacturing, large-scale international consolidation, together with MES and PLM projects, will be our focus.

Principal services

Case Management, Information Management and Data Sharing

Shared Services

e-Services

Security

Business Intelligence

Training

Highlights of 2007

Transforming Health and Safety and delivering secure military satellite communications across the UK Ministry of Defence.

Applications services for the UK Home Office and web platform for the UK Foreign and Commonwealth Office.

Outsourced applications services for the Dutch Center for Work and Income (CWI).

Enhancing Social Care and improving health services with electronic patient record management in Sweden.

Looking ahead

There is a growing emphasis on delivering better services more efficiently to businesses and citizens, based on information sharing, shared services and e-services.

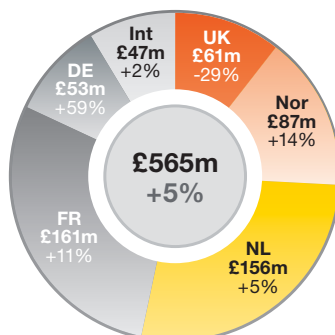
We are committed to providing applications services and innovative solutions to our customers to meet their needs, deliver transformation and achieve tangible business benefits.

Our markets by industry (continued)

Financial Services



Revenue



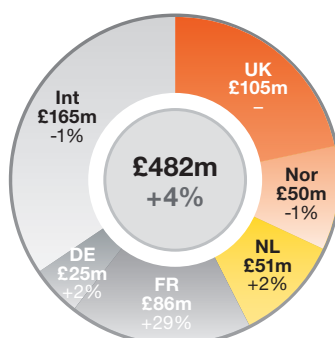
Top five clients

ABN AMRO
Barclays Bank
BNP Paribas
ING
Rabobank

Energy and Utilities



Revenue



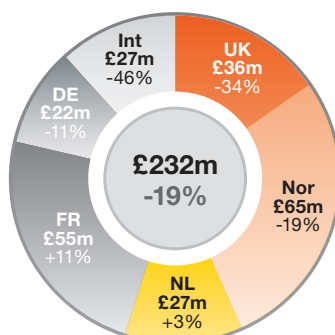
Top five clients

Shell
Energias de Portugal
Electricite de France
Total
E.ON

Telecoms and Media



Revenue



Top five clients

BT
France Telecom
Telefonica
Teliasonera
Vodafone

Principal services

Payments Processing costs, compliance, SEPA, shared service models.

Business transformation Centralising information platforms, distributing products and processes, developing new models for customer interaction.

Risk and compliance Implementing change programmes that meet regulatory requirements and capture measurable business benefits.

Insurance Insurance core systems, BPO services, hosting, fraud detection, consultancy.

Highlights of 2007

A web-portal for tunemoney.com, the first no-frills online financial services company in Asia.

SEPA-compliant payments solution (Logica All Payments Solution) and associated integration services delivered to a major global bank.

Migrated two international banks from legacy bespoke systems to Logica's CLS solution.

Piloted a mobile phone payment scheme in the Netherlands.

Looking ahead

We will support our customers to respond to rapidly changing market conditions. This includes the necessity to meet new complex regulatory and compliance requirements.

Management of liquidity and payments capabilities will increasingly be a focus and we will bring innovative solutions to meet these needs and to exploit cost and business opportunities.

Principal services

Operational excellence Enterprise asset management (EAM), including mobile workforce management.

Competitive markets Advanced metering, central markets, trading and risk, billing and customer care.

Oil and Gas (upstream and downstream) EAM, supply chain optimisation, commercial, retail operational excellence.

Environment and regulatory compliance Emissions management, energy efficiency, Sarbanes-Oxley.

Highlights of 2007

Designed and delivered the first phase of a wind farm management system for Energias de Portugal, covering over 1,000 wind generators on 48 farms in Portugal and Spain.

Completed a four-year business transformation and migration programme for RWE npower's retail business in the UK, migrating 4 million customers on time and on budget.

Looking ahead

We will continue to deploy advanced information technology to help produce and deliver energy more efficiently and reduce its environmental impact.

Specific areas of focus include renewable energy management, automated meter infrastructure, smart grids, emissions management and registration.

Principal services

Operational and business support systems (OSS and BSS)

Service fulfilment, service assurance, network inventory management solutions

Billing

Managed Virtual Network Operators (MVNO)

Customer relationship management (CRM) and business intelligence (BI)

Content, media and next-generation services

Highlights of 2007

A €40 million HR outsourcing contract with KPN, the leading Dutch telco (see page 25).

Delivery of a complete MVNO solution for Swisscom and Migros within 11 weeks.

Design, development and operation of a complete IT, BSS and VAS (value added services) environment for a new operator in Malaysia.

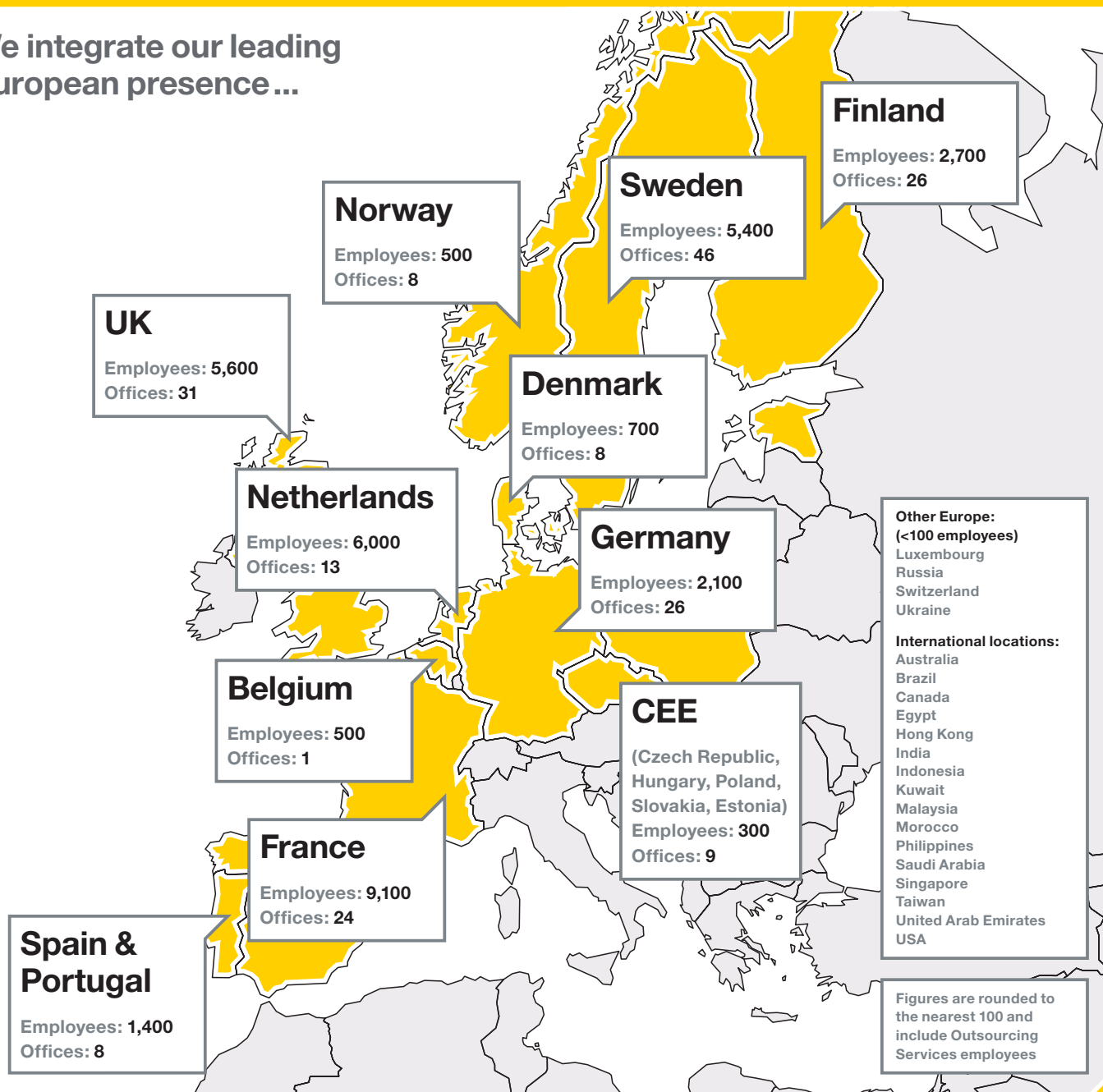
Looking ahead

We are continually developing our portfolio of services and solutions to meet the growing needs of full-service communications providers and the convergence of telco/media markets.

Particular focus will be on enabling telco's to meet the demanding requirements of differentiation whilst reducing costs of delivery.

Our presence

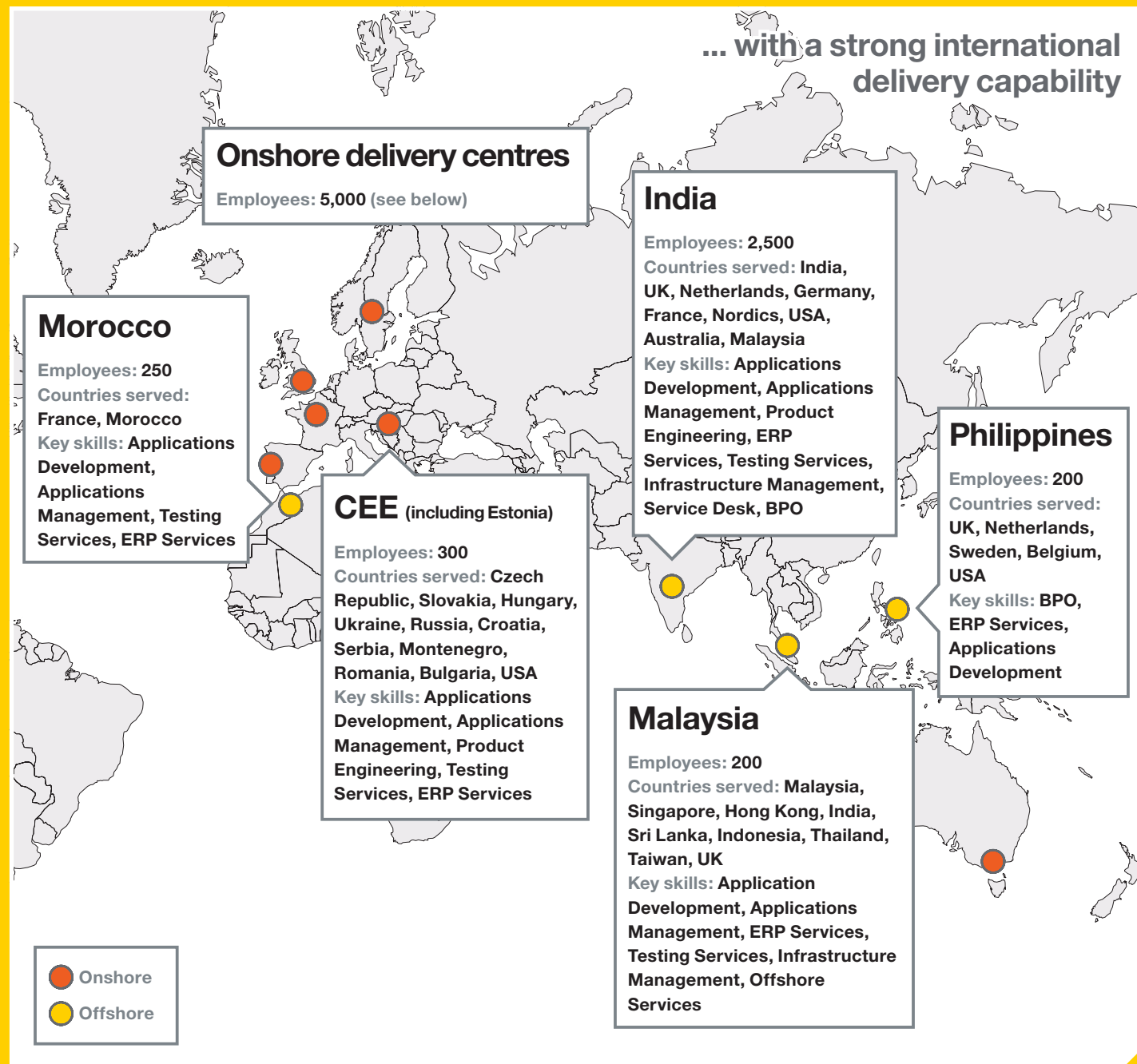
We integrate our leading European presence ...



Many of our European-based customers have operations around the globe. We have offices in 36 countries. We have a leading position in Europe and significant international operations in the United States, Brazil, the Middle East, Asia and Australia. Our global presence allows us to deliver uniform, high-quality services wherever our customers do business.

International competencies are shared across the Group. We have in-depth knowledge in five market segments, which are international in scope, and in functional areas common to all industries, such as finance and accounting and human resources. We act as global partners with our customers, offering a full-spectrum service including consultancy, systems integration and IT and business process outsourcing.

... with a strong international delivery capability




Our Outsourcing Services division, established in January 2008, incorporates our previous global service delivery organisation. It includes around 9,000 Logica employees working in our onshore and offshore centres across the globe (see chart above). Our onshore delivery centres in the UK, Netherlands, Nordics, France, Portugal and Australia work closely with our offshore centres to deliver the optimal services to our clients.

Our integrated approach to outsourced service delivery provides maximum flexibility in meeting the differing needs of our European customers, allowing us to meet each one's prescribed criteria for quality, performance, security and risk. We combine people, processes and technology to deliver integrated, uniform services that mirror each customer's requirements.

Business review

Where we are active

Our balanced geographic footprint  is helping us to create a platform for sustained growth. It allows us to intimately understand the needs of our customers and their local markets.

► Our recent acquisitions bring us closer to more customers in Europe

Unilog and WM-data complemented Logica's strengths to create one of Europe's leading IT and business services organisations.

We are proud of our European heritage. Our UK, Dutch, French and Nordic businesses grew in their respective territories over three decades. Few competitors can match this depth of knowledge and experience in Europe.

Cultural distinctiveness helps our business by keeping us close to our customers. Different markets have different dynamics, use different languages and have different ways of approaching complex business problems.

Multinational organisations want IT partners that can deliver an effective service, reduce risk, manage cost and support them in multiple territories in a uniform way.

The Group's services and solutions address distinct customer priorities in different geographies. In France, for example, there is considerable demand for our consultancy services, especially in the Customer Relationship Management (CRM), Business Intelligence and Service-orientated Architecture (SOA) arenas. End-to-end service has always been an important strength in the Nordics: we have a market leading infrastructure management capability and are acknowledged experts in Microsoft solutions in this territory.

The UK's transformational government programme plays to our strength as a systems integrator – we work closely with public sector agencies and are one of the leading IT and business services suppliers to the Space and Defence sector. Our market leading testing capability is attracting customers, not just in the Netherlands where we initially developed this expertise, but across all our geographies.

About the Q&As

Research and consulting group IDC, a specialist in IT and business services, was commissioned to provide an input to the Logica 2007 Annual report and accounts to share with our investors an external view of the IT and business services market in 2007 and future prospects. This appears as a series of Q&As through this report. The answers represent the views of IDC.

The Q&As can be found as follows through the report:

- p18** What does the Western European IT and business services market look like?
- p20** Do buying patterns in outsourcing differ by geography and customer type?
- p22** What will drive demand growth in IT and business services?
- p23** Which are the 'hot' areas of end-user demand?
- p24** What are the implications of the offshore challenge from India?
- p26** Are issues like corporate responsibility and climate change relevant to the IT industry?
- p27** How rapidly are IT and business services growing?
- p29** What margins are achievable in outsourcing?
- p30** How cyclical is the IT and business services industry and where are we in the cycle?

Q What does the Western European IT and business services market look like?

A The combined services market in Western Europe was worth \$240 billion in 2007; 80% of demand was for IT services, the remaining 20% was for business services.

Project services contracts such as system integration, application development, and IT and business consulting make up 35% of the total, outsourcing contracts account for 45% and support services the remaining 20%.

IDC predicts that outsourcing will account for 50% of the market by 2012, with BPO contracts and payroll processing driving much of the growth. There will be marked geographical variations in that timeframe: the UK will remain easily the most outsourcing-oriented market.

(Source: IDC)

► **p86**

See page 86 of the Financial review for further details on our financial performance

Strong local operations in four key regions of Europe also make the business more resilient: we are less vulnerable to a downturn in a particular market. Our more balanced geographic profile meant that a weaker performance in the UK in 2007 was partly offset by strong revenue growth and good operational performance in the Nordics and France.

Our International business, which includes our operations in the United States, Brazil, Portugal, CEE, the Middle East, Asia and Australia, enables us to deliver to European customers in the international territories where they do business and brings further knowledge and skills to the Group.

► Our acquisitions are delivering benefits today

Cost reductions

We are realising the anticipated cost benefits of integrating Unilog and WM-data into the Group. In the French and German businesses the expected cost savings in 2007 have been realised. Our Nordic operation in 2007 achieved £5 million in annualised cost savings. It is expected to deliver an incremental £8 million in 2008 and annualised cost savings of £15 million by 2009.

Integrating Unilog

2007 was a year of good progress for the former Unilog business. In 2006 the emphasis was on combining the Unilog and Logica businesses, primarily in France and Germany. With this achieved, the emphasis changed during 2007 and throughout 2008. We are now focusing on introducing common processes and systems which will result in economies of scale and ensuring we market propositions effectively across the Group to boost revenue.

We continue to achieve profitable growth in Germany, with revenue up 9% to £180 million in 2007 and margins of 4.5% compared to a loss in 2006. We have been actively recruiting in the German market to meet demand.

The French operation performed strongly during 2007. It achieved double-digit organic revenue growth, demonstrating both the benefits from cross-selling and that the senior management changes in the second half of the year did not affect performance. We ran an effective recruitment campaign in 2007 to meet the growth in demand in France, exceeding our recruitment targets.

Logica's international credibility is paying dividends in France. For instance, Carrefour had been an important Unilog client for many years at national level, but only now, as part of Logica, is the former Unilog client able to discuss its use of Logica's wider international capability, resulting in significant new business. Logica's international profile and willingness to invest in future growth have been pivotal to the growth in this account.

The UK business

Our overall performance in 2007 demonstrated the benefit of a balanced geographic profile. Areas of strength across the Group partly offset a weaker performance elsewhere, such as that of our UK commercial sectors in 2007.

While the UK Public Sector business remained strong, the loss of a transport contract at the end of 2006 created a gap in UK commercial revenue which was difficult to replace. The UK commercial market, an early adopter of outsourcing and offshoring, remained competitive in 2007 and we under-performed the market. We are working to reinvigorate our sales effort in the UK commercial sectors and saw an improvement in Energy and Utilities in the second half of 2007.

Profit was also impacted by the weakness in the commercial sectors, cost provisions taken on a number of contracts and the resolution of a customer dispute.



See page 89 of the Financial review for further information about the UK operation

We strengthened our relationship with leading French utility company EDF Energy and signed several major contracts with them during the year, which demonstrate the breadth of our capabilities. We won a significant deal with Natixis Assurance: a €15 million 18-month consultancy-led project to set up new claims handling processing systems.

France's traditional strengths in application management are now supplemented by a global delivery capability. We have invested in our operation in Morocco which handles language-specific functions to service our French outsourcing clients.


Outsourcing wins in 2007 include, among others, contracts with Lafarge, Air Liquide and Carrefour. For EADS we are managing applications in the UK, Germany, Italy and France. We are implementing systems for France Telecom in Poland and the UK. For Suez we are working in Belgium as well as France.

Business review

Nordic cost savings in 2007

£5m

Integrating WM-data

We are growing market share in the Nordics. Organic revenue growth  exceeded the market, reaching 6% in 2007. Quarter by quarter, there has been a substantial increase in the deal pipeline since the acquisition. As a Group we are bidding for, and winning, larger deals which would not have been available to WM-data on its own.

Our Nordics operation has undoubtedly benefited from Logica's international profile and broader capabilities. International reach was instrumental in project wins at Ericsson, DHL and IKEA. The Group's SAP strengths helped close deals at Sandvik, YIT and the Swedish Social Insurance Agency.

Our leading Manufacturing Execution Systems (MES) position has allowed us to close projects with Mölnlycke and Nutreco. Several projects also include development and testing components to be delivered out of India. In February 2008, Swedbank awarded Logica a five-year contract for IT development and applications management. Under the agreement, Logica will set up a development and applications management centre for Swedbank as part of its operations in Bangalore, India.

The early stages of the integration are complete. Our focus now is on further streamlining our systems and processes to ensure we gain economies of scale and leveraging the strengths of the Nordic business, such as its leading approach to infrastructure management, as well as the strong capabilities and references it can bring to the rest of the Group, such as the project at Vattenfall (see opposite page).



See pages 88 to 92 of the Financial review for further information on our Nordic, French and German businesses

Q Do buying patterns in outsourcing differ by geography and customer type?

A Yes. Europe is currently split between an outsourcing fast track in Northern and Western Europe, and a slower track elsewhere.

UK organisations are Europe's most enthusiastic outsourcers. Outsourcing accounts for 56% of their combined external IT and business services spending and there is much less 'insourced' activity. Outsourcing is also reasonably high in the Nordics and Benelux. The picture is more mixed in Germany, Spain and France. Some of the reluctance to outsource in continental European countries has traditionally come from labour-market regulations that make outsourcing expensive and cumbersome, but these regulations are being relaxed as enterprises put pressure on their governments to allow them to adopt structures similar to competitors based in less regulated countries.

(Source: IDC)

As a Group we are bidding for, and winning, larger deals which would not have been available to WM-data on its own

► How our international competencies are helping us to grow our company

Consultancy and professional services

The Group's Management Consulting practice works closely with functional teams and domain specialists to deliver services tailored to clients' particular needs. Some are embedded in domain-specific teams and contribute expertise to systems integration and development projects. Others work in specialist consulting groups.

We are a recognised market leader in the provision of high-level consultancy in architecture and systems design. This strength has been built on a structure that aligns specialist teams around specific client needs. Unlike many of our domain-specific competitors our industry-specific teams also include specialists in particular functional areas, such as finance and accounting, human resources or CRM.

Our business teams work with our customers to deliver vertical industry sector expertise, dedicated business processes, efficient solutions and emerging and innovative technologies.

In France, Logica's management consultancy capability is well established. With over 1,000 consultants operating across all the main market segments we are a top five consultancy in this market.

We have established management consultancy practices in the UK, the Netherlands, Germany and the Nordics and are applying a common consultancy framework across the whole organisation to grow our international consulting capability. We have launched Logica Management Consulting as a distinct sub-brand and are developing a range of consultancy-led international business propositions.

Systems integration and development

Logica is a renowned vendor-independent systems developer and integrator. We act as partners to software houses and infrastructure providers. We also work with our customers to help them develop bespoke systems or integrate existing systems.

We pay close attention to technology trends and monitor how they impact our clients' business. Globalisation, industrialisation of technological processes, and security concerns in an era of pervasive internet connectivity are front of mind for our customers. We understand the market so we are well placed to anticipate these trends. We are thought leaders and innovators in a number of key domains.

We invest selectively to ensure we have the right technologies and know-how in place to help our clients navigate the changing landscape – by developing new value-creating business models, defending their competitive position and maximising the efficiency of their IT estate.

Vattenfall case study: rethinking utilities metering

VATTENFALL



Vattenfall Group supplies energy to five million customers in Germany, the Nordics and Poland. It is Europe's largest heat generator and its fourth largest electricity supplier.

When Swedish legislators decreed that all energy meters would have to be read at least monthly and set a deadline of July 2009, Vattenfall faced a major replacement programme. It chose to meet its obligations with an ambitious automated metering programme, which would deliver additional customer benefits.

Logica (then WM-data) played a pivotal role in the consortium-led programme which provided a complete turnkey solution. At its heart: WM-data's AM Connect, which collects meter data over the GPRS network and forwards it to a data management system to be fed directly into billing systems.

By the end of the two-year project, Vattenfall had equipped 150,000 meters for automated reading. Despite very high volumes of data the system has exceeded its reliability targets. It has boosted customer satisfaction and reduced the number of customers querying bills. With all of its meters delivering daily values, the Swedish business can respond much more quickly if problems occur.

Similar systems will be implemented across Europe in the coming years as national governments set tough targets for more frequent metering, leading to increased costs. Vattenfall is one of the first major energy suppliers to incorporate smart metering into its business model. Its automated metering infrastructure is providing it with up-to-date information about energy flows and allowing it to predict and plan for its energy needs with far more certainty and at lower costs.

► logica.com/casestudies

Business review

SAP

We are a major international force in SAP services, one of the few companies with global partner status, and support more than 100,000 SAP end-users worldwide. We are a top five provider in Europe.

Our SAP professionals, based in over 20 countries, serve a global client base of blue-chip organisations. Our consultants have extensive experience of SAP implementations. They have the knowledge and expertise to integrate SAP software on many different systems.

We have been building closer partnerships with SAP and co-developing industry-specific solutions. For instance, increased competition and consolidation in the gas market is generating demand for an integrated Enterprise Resource Planning (ERP) platform, covering elements from both the Utilities and the Oil and Gas industries.

Logica worked with SAP to combine its separate Industry Solutions into a composite solution. An international team worked closely with SAP's product development centre to design and build an integrated Oil and Gas and Utilities application. This was launched in May 2007: the two companies are co-marketing the new solution and have established a strong global pipeline. Following this success, Logica and SAP are exploring other areas for co-innovation in emerging vertical markets, notably Financial Services and the Public Sector.

Our strength as an innovator gained formal recognition during the year when Logica won SAP's Innovation Award in the Netherlands. The award cited our Enterprise SOA work for the Traffic and Water Ministry in the Netherlands. The system, the first of its kind for the Ministry, allows citizens to get permits across the internet and manages real-time data flows between multiple parties. The product is suitable for any permit granting authority and we are exploring a number of promising opportunities.

Microsoft

We develop innovative solutions on the Microsoft Enterprise platform. We have Gold Partner status in nine separate categories and more software development licences than any other Microsoft partner. Six thousand Logica employees work in this area, 1,900 of whom have earned Microsoft certifications. During 2007, we gained high profile project wins in each of our territories. For example, our security solution for USB sticks, developed in Denmark, won Microsoft's Global Security Solution of the Year award at its Denver, Colorado, partner conference in June. We also implemented a highly refined, Microsoft Dynamics-based CRM system for La Poste in France for use by its customers. Not only is the system designed by Logica, it is also managed by us on an outsourced basis.

We are a major international force in SAP services, one of the few companies with global partner status, and support more than 100,000 SAP end-users worldwide

Q

What will drive demand growth in IT and business services?

A

From 2001-2005, enterprise spending on IT/BPO services was mainly about cost cutting. Key service lines were outsourcing, offshoring and IT and process consulting.

More recently, enterprises have used IT and BPO as ways to grow their revenues. Both private and public sector organisations are using technology to create online services, improve service quality and stimulate transformational programmes. The key services remain unchanged but they are now supplemented by niche technology deployment such as business intelligence and customer relationship management.

Although cost will remain the decisive factor, larger suppliers – Logica included – need a wide portfolio of services, including business consulting, IT consulting, systems integration and outsourcing services, to meet the changing demands of their major customers as they increasingly look to their IT services suppliers to help them deliver business value.

(Source: IDC)

Our Sharepoint-based document management system is currently being deployed by NATO. The 22 member countries will be able to share information seamlessly, greatly improving international coordination and Western security. Another document management solution, a case management system for the UK Justice system, is accelerating case processing for the Crown Prosecution Service.

Oracle

Logica has been a certified advantage partner to Oracle since 1994. With a dedicated Oracle practice in Europe including 1,400 Oracle applications staff, we have been responsible for hundreds of implementations worldwide. We are the number one Oracle applications outsourcing provider in France and have twice gained the prestigious title of Oracle European Partner of the year. We have practical expertise in all of the key business and technical disciplines. We offer full coverage of Oracle activities and expertise in eBusiness Suite, Siebel, Peoplesoft and JD Edwards related activities.

We work closely with Oracle on product development and are active participants in the Oracle community. Our global alliance with Oracle pays dividends for our customers. This year, for instance, we signed an agreement for Logica's human resources and payroll customers to get pay-as-you-go access to Oracle Human Capital Management Software, obviating the need for them to pay upfront for Oracle licences. Oracle awarded us Innovation Partner of the Year for the work. We were also awarded Joint Partner of the Year with IBM for developing an on-demand infrastructure service that is ideal for outsourcing customers.

IT and Business Process Outsourcing

Today's businesses see outsourcing in strategic terms – it is not simply about reducing costs. As an IT and business services company which focuses on the use of technology for business transformation this has always been our approach. We can draw on our experience of leading thousands of successful projects to optimise business processes and to implement innovative solutions for our customers. We work closely with our customers to deliver cost-effective outsourced services that also meet their strategic priorities.

We provide outsourced application management services to numerous businesses. Our infrastructure management capability was highly commended by Forrester Research in its 2007 global survey. Forrester highlighted our client-centric approach and strong European focus as particular strengths.



Which are the 'hot' areas of end-user demand?



Areas driving new investments include wireless technologies and fixed/wireless convergence, business intelligence technologies, customer relationship management technologies, new media and Web 2.0 technologies, on-demand and utility IT services, and the 'software as service' concept.

Organisations are abandoning custom-built systems in favour of cheaper, off-the shelf solutions, such as the big enterprise software packages from SAP, Microsoft and Oracle. They are looking for full-range services suppliers that combine advisory capabilities with practical implementation skills as well as the ability to run major processes and applications under an outsourcing model. They also expect suppliers to collaborate effectively with other vendors who may often be competitors to deliver complex solutions.

(Source: IDC)

We have been industrialising our remote infrastructure management services to package up these services and increase the effectiveness of our blended delivery system.

Our Oracle-based Remote Infrastructure Management (RIM) system provides pay-as-you-go flexibility and we are helping to facilitate business transformation programmes at major international businesses like InBev.

In business process outsourcing (BPO) we are strong in value-added services. Our combination of sector knowledge, functional expertise and global resources allow us to work in partnership with our clients. We are building on these relationships. For instance in April 2007, in a significant contract extension for fund manager Threadneedle, we successfully transitioned its employees to a fully managed, SAP-based payroll processing system.

Logica's strong HR outsourcing capabilities are supported by shared service centres and offshore capacity. We design, develop and deliver e-learning across Europe, where we are the third largest service provider. The Learning and Skills Council recognised Logica's strength in the sector when it awarded us a major contract to deliver the national educational infrastructure under the UK Government's Managing Information Across Partners (MIAP) programme.

Business review

How we deliver our services

Our blended service model combines the best competencies from around the world in the most cost effective and efficient way. The creation of our Outsourcing Services division in January 2008 will build on this model and extend it further through the business.

Logica's scale and international presence gives the Group the capacity to deliver world-class IT and business services to its customers. We focus on providing value-added services to meet the particular needs of our customers rather than pure relocation to more cost-effective locations. For Carrefour, for instance, we have negotiated year-on-year reductions in infrastructure management costs into the three-year contract, reflecting our confidence that we can generate additional savings through process improvements. We take the view that, while cost savings are often an important driver for outsourcing activities, customers gain greater long-term efficiencies when offshoring is combined with process innovation.

Process industrialisation

We have been steadily industrialising our processes to enhance our ability to add value for our customers. We are assembling value propositions based around cost-competitiveness, homogeneity and process innovation.

Ensuring cost-effectiveness is a prerequisite in the way we deploy resources for our customers, but increasingly, as our customers become more global it is also important to be able to operate uniform services in multiple territories. Homogeneity across borders is a key driver as we develop our service capabilities. We are committed to continued process innovation. For example, increased automation allows us to reduce costs, accelerate speed-to-market and improve services for our customers, creating value for their business.

Offshore service centres

Our largest offshore centre is in Bangalore. During 2007 we opened an additional offshore centre in the Philippines and around 200 people are already employed there. We have doubled our staffing levels in Morocco. We now occupy state-of-the-art facilities in Casablanca and Rabat, which focus on supporting our French language-based activities. The Morocco service centre acquired Capability Maturity Model Integration (CMMI®) level 3 status during the year. In early 2008 we established an Outsourcing Services division to further develop our outsourcing model. This division will take end-to-end responsibility for outsourcing services, ensuring that customers have access to the most efficient and cost effective blend of onshore, nearshore and offshore support. This division will incorporate around 9,000 Logica employees working in our onshore, nearshore and offshore centres.

Bringing our services together

From our onshore, nearshore and offshore centres we are able to deploy world-class service streams that meet local cultural and language requirements.

We bring these services together by collaborating across borders. Our approach allows us to combine multiple service streams from a range of different locations into a single, seamless service configured around each customer's requirements.

Q What are the implications of the offshore challenge from India?

A Indian vendors have won market share, particularly in the application-development and application-outsourcing markets, in part by offering services at very competitive prices.

This has forced Western-based players to move some of their own workforces to lower-cost locations, both offshore and nearshore.

Customers now expect their vendors to distribute workloads across several centres, not just in India, to reduce risk. However, they still expect innovation, added value and sometimes face-to-face interaction. Success in this market is as much about combining onshore (such as business consulting, project management and sales), nearshore and offshore (such as application management and systems integration) resources to good effect as it is to do with providing the lowest cost offering.

(Source: IDC)

► How we go to market

Because of our strong domain skills and local expertise, we have an excellent understanding of our customers' business issues. We are also technology innovators, often first to market with new ideas to add value and transform our customers' business. Our consultancy work often leads on to further systems integration and consulting work.

Our value propositions include:

Security

As organisations automate and integrate their processes, the consequences of confidential information falling into the wrong hands become more severe. Delivering information cost-effectively and reliably while protecting restricted data presents a big challenge. It is an especially sensitive issue for banks and the public sector.

Logica has one of Europe's largest security practices. Our international security group has over 250 staff in nine territories in Europe and Asia. We helped to develop many of today's security standards and we are the UK leader in information security management. We are involved in all areas, from designing security architecture to vulnerability assessments to biometrics.

Our clients include leading names like HP, Oracle and NatWest. We are developing systems for the European Space Agency which will ensure the security of Galileo, Europe's satellite navigation system and security features for the NHS Spine, the world's biggest civil IT programme. In the Financial Services arena we coordinate user access management on a worldwide basis for Royal Bank of Scotland. We completed a successful proof-of-concept trial of facial recognition software in a live airport location during 2007.

Electronic payments

Logica has been providing international electronic payments solutions for over 35 years. Payments is an economies of scale business and we are leveraging our activities to reduce costs and increase the quality of our offering for Financial Services clients. We work with leading financial institutions across Europe: in France, Germany, the UK, the Netherlands, Belgium and the Nordics.

We are assisting the European Payments Council, the bank-owned organisation which manages compliance with changing regulatory conditions, in developing the rules and the framework for the Single European Payments Area (SEPA). During 2007 we reviewed the rules for testability.

KPN case study: streamlining vital HR services



Logica's relationship with KPN has evolved over more than a decade. Over the years Logica has developed, tested and integrated mission-critical systems and provided consultancy services for the Netherlands' largest telecommunications services provider.

Over the past eight years KPN has progressively streamlined its HR support and payroll processing.

In 2005, KPN decided to consolidate its HR support services at a single HR Shared Service Centre (SSC) in the city of Voorburg. Its HR personnel were centralised in Voorburg from 15 separate locations.

KPN has always considered its HR SSC in Voorburg to be a stepping stone towards a fully outsourced HR support service. In 2007, KPN took the next step: it granted Logica a €40m seven-year contract to take over this centre and administer the personnel and payment records for KPN's 17,000 employees.

Under the terms of the contract, 58 HR professionals from KPN have joined Logica. Our HR expertise and experience of KPN processes ensures quality and continuity. The Logica HR SSC for KPN now operates an identical service from its Rijswijk office near Voorburg.

In future we will optimise processes, organisation and IT at the SSC. We will develop generic functionality and upscale its services to develop a multi-client SSC. KPN will see increasing benefits as unit costs fall.

► logica.com/casestudies

Business review

Q Are issues like corporate responsibility and climate change relevant to the IT industry?

A Very much so. Organisations are under pressure from shareholders, customers and other stakeholders to prove that they offer environmentally friendly products and services. They demand similarly high standards from their suppliers.

The IT industry is developing offerings that address power efficiency (particularly in data centres), recycling and other green issues.

This is only part of a broader agenda based around social responsibility: how an organisation interacts with its customers, employees, the community and the environment.

(Source: IDC)



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See Corporate responsibility report on page 78

Our own applications meet stringent criteria for reliability and performance. European Bankers Association (EBA) Clearing, the leading private provider of euro clearing services, has certified Logica's All Payments Solution (LAPS) for supporting its Credit Transfer services.

SEPA projects call for a combination of skills. Our teams consult while also providing systems integration and development capabilities. We advise and assist banks on exploiting structural changes in the market to transform their business models and derive competitive advantage.

SEPA will in future be the sole platform for payment processing for all euro denominated economies. Ultimately, every company transacting business in euros will need to conform to SEPA standards.

Testing

Logica has always had a highly effective testing resource. We have over 3,150 International Software Testing Qualifications Board (ISTQB) certified career testers. As well as tailored testing services for specific business situations like SEPA, they conduct large-scale managed testing programmes and environments. We are growing our ability to offer outsourced testing environments. During 2007 we set up a testing factory in India and recruited 400 testers to staff it.

For customers, integrating testing into the development process allows them to reduce time to market and improve quality. Our applications testing service is helping Royal Bank of Scotland to reduce costs and to integrate its testing procedures. We have conducted embedded testing of automotive navigation systems for Pioneer. For ING, we took on 350 full-time employees, around half of whom work in testing roles. We are transforming its testing from a resource-based to an outsourced, results-based service. For Vodafone, we operate a managed staging and test environment allowing full end-to-end testing of new products and services prior to network launch.

Smart metering

The environmental agenda is now a significant business driver. Smart metering technology is widely cited as a key tool for raising energy awareness. Smart meters allow utilities, major business users and potentially consumers to monitor their energy consumption hour-by-hour. By understanding how energy costs vary over time, consumers can reduce energy and utilities can iron out peaks and troughs in consumption patterns.

Logica, with its long history of delivering meter solutions, is at the forefront of the industry. Our Instant Energy data retrieval solution couples our prepayment technology with the ability to take remote meter readings in real time.

RWE npower is one of several UK suppliers piloting Instant Energy. For suppliers, there are clear early benefits, including prompt payment and simplified administration. For customers, it means greater certainty about their energy spend.

In the longer term, smart metering could have wider implications. Real-time billing makes it possible, for instance, for utilities to transform themselves into energy services providers, buying small-scale energy generation from homes and delivering combined energy packages.

Intelligent Transport Systems (ITS)

With transport responsible for 28% of European emissions and with freight traffic expected to grow by at least 50% over the next five years, Europe's businesses realise that emissions control is becoming a key competitive differentiator. Increasingly they are looking not only at saving time and money, but also at ways to minimise energy usage. We are working with them to re-engineer their value chains to meet these new priorities.

We are a market leader in the ITS arena. Our work spans road pricing, traffic management, smart ticketing systems, real-time traffic and information systems, asset management, mobile workforce solutions, safety and security, and emission management systems.

► We are building Group-wide processes to pursue operational excellence, reduce costs and function as one Logica

Common systems, common processes, common values

The adoption of the Logica name across the Group allows us to build a consistent brand image and identity with our customers in all the geographies in which we operate. As Logica, we are one of the leading IT and business services suppliers in Europe with great local strengths combined with great local delivery. We have the scale, capabilities and reach to enable us to compete effectively for major opportunities and larger customers. A single brand identity shows our clients that they will receive the same high quality service from us, wherever they are in the world.

In order to help us work better as one company we have built a strong platform to support the sharing of knowledge and skills. Sharing knowledge across the organisation is a key part of improving our service to our customers. We encourage international collaboration with shared applications and browser-based software. Many projects require close international collaboration and multi-disciplinary teams; so for instance, Dutch, UK and Middle East staff shared expertise in biometrics, smart cards and systems integration when developing a national ID system for a major government.

During 2007, we started to bring universality to our business systems. Our knowledge management platform, Cortex, has been introduced across the Group. The Group's Agresso-based finance system is now in use in France and being adopted for use in the Nordics. We have developed a common sales and marketing application and have unified our communications systems.

As Logica, we are one of the leading IT and business services suppliers in Europe with great local strengths combined with great local delivery

Q How rapidly are IT and business services growing?

A Although IT services is by now a relatively mature industry in Western Europe, it still generally outperforms GDP growth. Overall, the market grew by over 6% in 2007; IDC forecasts around 5% CAGR between 2007 and 2012.

Among the fastest-growing IT services are application outsourcing (8.0% CAGR) and network and desktop outsourcing (6.6% CAGR).

Demand growth between vertical markets varies from some 4.5% in manufacturing to 5.7% in Public Sector. Financial Services and Transport are also amongst the faster-growing sectors.

In business services, IDC predicts 7.6% CAGR between 2007 and 2012, mostly fuelled by increased business process outsourcing.

(Source: IDC)

Business review

Knowledge management (KM)

We recognise the importance of having effective processes in place to facilitate the sharing of knowledge and experience across the Group. We invest continuously in our KM infrastructure. We have updated the knowledge store by incorporating new content from the French and Nordic businesses ensuring that these are held in both the original language and in English. We continue to improve the KM platform to make it more accessible and relevant to our people, for example, with more comprehensive search tools. Our knowledge management infrastructure and content management activities are all managed offshore from Bangalore.

We will continue to embed Cortex in our French and Nordic operations during 2008. We are continuing to evolve Cortex to meet the changing requirements of the business and anticipate a new development – Cortex 2. We anticipate the incremental adoption of Cortex 2, which will align our systems and processes even more closely to business objectives. Cortex 2 will be specifically designed to support growth in software development and applications management carried out in our offshore centres.

Internal systems

An efficient back office and business support function is vital if we are to compete effectively. We will utilise our blended delivery model to transfer back office processes, especially for non-language critical activities, to offshore locations. We are building a shared service facility for our finance and accounting (F&A) processes based on standard systems and processes.

The programme has begun with the transfer of our UK finance administration to Bangalore. We also relocated our UK HR services to our Manila shared service centre in the Philippines in 2007. HR services in other parts of the Group will also move their activity offshore in 2008, providing an essential core reference site for clients considering an outsourced solution for their HR needs.

Taylor Wimpey case study: delivering the benefits of outsourcing

TaylorWimpey

Taylor Wimpey plc was created in July 2007 when Taylor Woodrow and George Wimpey merged. It is now the UK's largest home builder.

Following the merger, integrating the two companies' legacy systems became a strategic priority for the combined organisation. Taylor Wimpey chose to outsource all of its IT systems to Logica.

Logica's £30 million five-year contract will provide a consistent IT service across the enlarged UK business. We will be working closely with Taylor Wimpey to transform the organisation's IT systems, which will include hosting and project services.

Under the terms of the new contract we will provide core IT services, like infrastructure management and an improved service delivery model leveraging shared services which we anticipate will result in at least 20% in net savings over the life of the contract.

Importantly, Logica has also joined Taylor Wimpey's IT leadership team. This unique partnership approach, based on the established and trusted relationship, will see Logica work with Taylor Wimpey to address their current IT issues.

► logica.com/casestudies

We will utilise our blended delivery model to transfer back office processes, especially for non-language critical activities, to offshore locations

How we manage and measure our performance

Our performance

We continue to monitor performance against the KPIs set out in our 2006 Annual report (listed here in bold).

Our geographic profile continued to give us an element of balance in what was a challenging year for the UK. This made it difficult to grow revenue faster than the market, which we estimated to be growing at 4–6% in 2007. Overall, the Group generated **organic revenue growth** in IT and business services of 3% to £3.1 billion.

We sharpened our focus on core activities in 2007, with two notable disposals. In early 2007, we announced the sale of the Telecoms Products business to a private equity consortium. In June 2007 we disposed of WM-data's industrial design and product development operation, Caran. This allows us to be focused on IT and business services across five sectors.

The path to being a more mature IT services organisation, with a significant proportion of revenue from outsourcing, also continued in 2007. In the Netherlands, our revenue from outsourcing increased from 13% to 18% and outsourcing now accounts for more than 30% of revenues in three key territories (the UK, France and the Nordics). At Group level, **revenue from outsourcing** was 31% in 2007.

Our balance among market sectors is further detailed on pages 12 to 15. IDT and Public Sector continued to be strong components of total Group revenue (at 30% and 28% respectively) while Energy and Utilities represented around half that. Financial Services revenues represented 18% in 2007. With the disposal of the Telecoms Products business, the Telecoms and Media segment fell to less than 10% of Group revenue.



P 12

See page 12 for our markets by industry

With one of our four main profit generating geographies (the UK) disappointing in 2007, **adjusted operating margin** fell short of expectations at 6.8% (2006 pro forma: 8.5%). We have taken actions to redress this situation. As part of our review of the business, focus will be placed on returning the UK commercial sectors to growth. The weaker 2007 operating performance was somewhat offset by a lower tax rate, giving **adjusted EPS** of 10.2 pence. (2006: 10.4 pence).

Cash conversion, a measure of the business's ability to convert profit to cash, remained very healthy, rising to 126% (2006 pro forma: 119%).



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See page 86 of the Financial review for further details on our financial performance



What margins are achievable in outsourcing?



While hardware-centred infrastructure outsourcing (for example, running datacentres) can be lower-margin, areas such as application outsourcing and business-process outsourcing (BPO) are less commoditised. Double-digit operating margins are achievable in these areas.

There are also strategic considerations. Outsourcing generates stable and predictable revenues – it provides a ready-made customer base for cross-selling – and outsourcing contracts can embed suppliers more deeply into their customers' businesses.

There's a good operational fit between BPO, consulting and IT services. IT providers that combine consulting capabilities with deep technology expertise are well placed to deliver value-added services.

(Source: IDC)

Our people

Throughout the business our success depends on recruiting, developing and motivating highly skilled personnel. We aim to attract smart technical people and develop them on the job and through formal training. We work with them to design suitable career paths. We run courses to promote virtual team working and cross-cultural awareness.

Employee satisfaction is a key metric. Logica's 'A great place to work' initiative is developing a clear set of Group-wide employee policies that will strengthen the business by attracting the brightest and the best in our industry to join the business and remain with us.

We assess employee satisfaction with a basket of key questions from our annual survey, which we conducted across the wider Group for the first time in 2007. The mean overall employee satisfaction rate for Logica employees was up from 3.33 to 3.44, based on an improved and very healthy response rate of 70%. (For more details, see the Corporate responsibility report on page 80.) We were also pleased to see staff attrition held at 16% for the second year in a row and we exceeded recruitment targets in a number of businesses. This helped us to increase our net headcount (after the impact of disposals) by 1,000 people during 2007.

Business review

In early 2008, we defined common values for Logica which we believe will be crucial in helping us to accelerate the integration of the Group and to utilise better our skills from around the world to help our customers succeed. These values are: Committed, Innovative and Open.

P 78 See Corporate responsibility report on page 78

Two key appointments during 2007 strengthened the management team. Andy Green took up his post as CEO at the start of 2008. He joins David Tyler who became Chairman in November 2007. Their arrival marks the start of a new chapter in the Logica story.

The Logica brand has been adopted across the Company from the end of February 2008 and will replace all existing brands. The move to one Logica is an important step in the integration of the Group. As previously communicated, we will incur an incremental cost of around £5 million in 2008 to implement this.

Outlook

Our outlook for 2008 is set against an uncertain market environment. Although we have seen a few incidences of slower spending, market activity levels generally appear resilient.

We remain alert to changes in customer sentiment and are carefully monitoring utilisation levels and recruitment. We are planning more flexible resourcing through the use of subcontractors and our blended delivery capability.

We expect the recently-announced Outsourcing Services division to lead to further growth in revenue from outsourcing and in the percentage of work delivered from offshore locations.

Based upon our order backlog and the pipeline of opportunities in our major markets, we currently expect 2008 constant currency revenue growth will be around a similar level to 2007.

Overall employee satisfaction 

Attrition 

3.44

16%

Overall staff satisfaction – Group mean score out of 5 for a basket of 9 questions (2006: 3.33)

(2006: 16%)

Q How cyclical is the IT and business services industry and where are we in the cycle?

A Today's IT and business services industry remains cyclical, but is far removed from the rollercoaster cycle of the 1980s and 1990s.

There are two main reasons for this. Firstly, most major organisations have now implemented must-have technologies, such as ERP and e-commerce applications. The panic buying we saw with the Millennium Bug and the Internet 'land-grab' of the 1990s is a thing of the past. Secondly, outsourcing now accounts for a larger slice of the overall market than it did during the rollercoaster years. Outsourcing contracts are usually long-term. They cannot easily be terminated at short notice and supply services which are crucial to the day-to-day running of the customer's business, at lower cost than when provided in-house.

The IT business cycle now mirrors the economic cycle and reduced growth is likely in the short-term. However, downturns also bring opportunities to grow market share for those industry players that are ready for them, for example, suppliers with strong outsourcing businesses and attractive cost-cutting propositions to sell to clients.

(Source: IDC)

Measuring our performance

Organic revenue growth 

+3.1%

(2006 pro forma*: £2,981m)

Revenue from outsourcing 


31%


(2006: 27%)

Cash conversion 

126%

(2006 pro forma*: 119%)

Throughout this report, Key Performance Indicators (KPIs) are denoted by the symbol 

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See pages 74 and 75 for a glossary of our KPIs

Adjusted operating margin 

6.8%

(2006 pro forma*: 8.5%)

Dividend

5.8p

(2006: 5.6p)

Adjusted earnings per share 

10.2p

(2006 restated: 10.4p)

* For definition of pro forma, see page 86

Recent contract wins

Order momentum improved over the last few months of 2007 and into the first months of 2008.

Outsourcing wins in the UK include a new applications management contract with airport authority BAA and an IT outsourcing contract win with the UK housing division of Taylor Wimpey. In the Netherlands, we have signed a €40 million deal with KPN to outsource its “best in class” HR shared service centre and we are developing an integrated back office solution for travel and toll services provider Movenience. In France, we have signed a €15 million applications management outsourcing contract with a major French bank.

Order momentum has been particularly strong in the Nordics, where we have signed our first major cross-selling project involving a significant offshore component with Swedbank. We have seen a number of new wins in the Public Sector, which include IT outsourcing contracts with the Norwegian Department of Labour, the Oslo Department of Education, the Finnish pensions agency and several Finnish government agencies in the transport sector. We have also signed a €10 million IT cooperation agreement with Bankgirocentralen, Sweden’s clearing services provider, and an applications management contract with the City of Gothenburg.

We continue to consolidate current partnerships and develop new ones. Ford of Europe has selected Logica in the UK as a preferred supplier for IT resources, extending the relationship into its 25th year. In the Netherlands, DSM has extended its 2005 manufacturing IT contract and we continue to build on the work we are doing with EDF in France. We have also put a €10 million framework agreement in place with the European Patent Office.

Our future direction

Andy Green joined the business as CEO in January 2008 and has been spending time with customers, employees and other stakeholders.

He has been conducting a review of the business and has identified some areas that need to be addressed.

Priority areas are increasing customer focus, accelerating integration across the Group, building on the current global delivery capability and establishing a more competitive cost structure.

The detailed conclusions of our review of the business will be published by the beginning of May 2008. These will position Logica with a clear direction for the future and a clear sense of the metrics we will use to demonstrate to shareholders how we are delivering value going forward.



Governance

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Chairman's statement

I am pleased to introduce this year's report, in my first year as Chairman.

Financial Performance

This has been an unsatisfactory year for the Company and its shareholders. Profit failed to reach our targets and fell well below where market expectations were a year ago. This adversely affected our share price, as did the market re-rating of the sector which has extended into the first quarter of 2008.

The bright spots were the encouraging performances in the Nordics, France and Germany and a strong Public Sector performance in the UK. Outside the Public Sector, we had a difficult year in the UK. Our commercial sectors declined and we encountered a problem with a complex contract for a long-term customer, against which we had to take a provision.

Our outlook for 2008 is included on page 30.

Board

Dr Martin Read decided to retire in May 2007 after 14 years as CEO. In thanking him for his contribution over the years we wish him well for the future. The Directors then invited me to join the Board and to take the lead in finding a new CEO.

We are delighted with the outcome of this search. Andy Green, who joined us on 1 January 2008, is the ideal person to lead this Group. He worked for BT for the last 21 years and in recent years played a key role as the Board member responsible for the development of BT Global Services. It is already clear in his first three months with Logica that he brings us a clear strategic vision and highly effective operational skills.

In the interim before Andy's arrival, Jim McKenna led the business capably through a very challenging period. He has now decided to step down later in 2008 and I would like to thank him for his professionalism and commitment throughout his 14 years at Logica.

The Company also said goodbye to my predecessor as Chairman, Cor Stutterheim, who retired in October after 37 years with the Group. We owe him a debt of gratitude and will miss his commitment to the Group as well as his great sense of humour.

George Loudon also retired in October after nine years as a non-executive director and Angela Knight will be retiring at the AGM after a similar length of service. On behalf of the Board, I would like to thank them both for their significant contributions and wise advice through an extraordinary period in the Group's history.



David Tyler, Chairman

Risk

In the second half of 2007, the Board re-examined its control over risks. While our internal risk control processes were found to be effective, some improvements have been made. Our goal is to manage and mitigate risks* without inhibiting the open entrepreneurial culture which will drive growth.

* See pages 54 to 55 for a more detailed list of our principal risks.

Shareholder Value

A key to success for the Company is to align management rewards to the interests of shareholders. As a result, we intend in future to ensure a significant portion of Board and Senior Management remuneration is share-based. A component of our Non-Executive Directors' fees is therefore now being paid in shares from 2008. We have also changed our share retention policy, now expecting the CEO to hold shares equivalent to 200% of his annual salary and requiring other Executive Directors to hold 100%.

Looking forward, the Board's top priority is to maximise value for shareholders. Given the quality of our employees, I am confident that, under Andy's new leadership, Logica has the opportunity to deliver superior returns in the years ahead.

David Tyler
Chairman

CEO's statement



Andy Green, CEO

Dear Shareholder,

I am delighted to have joined Logica as Chief Executive Officer. Whilst I have only been in post for a few months, I can see that this is a strong business with significant potential – and I am very excited by the opportunity to help release this potential.

My focus since joining has been on understanding quickly what we should be doing to respond to the challenges that faced Logica and how we should be working to build a successful and sustainable business over the longer term that delivers real value to you, our shareholders. However, this year's annual report is not the place for me to make grand pronouncements about the future. As we go to press on the report, I am leading a review of the business, working closely with the management team to determine the right way forward for Logica.

A number of things have struck me about the organisation. Some of the best people in the IT services business today work at Logica – they are technical experts who also have a deep understanding of the industries in which they work. We have close, long-term relationships with our customers who value us for our reliability and quality of service. And, importantly, we have a leading position in Europe with an established international presence.

Whilst I do not want to prejudge the conclusions of the review of the business, I do believe that there are a number of critical things that we need to do to be successful:

We need to ensure we manage risk well

As we migrate to a more mature services organisation, it is essential that we continue to evolve our risk management and strengthen our ability to monitor risk effectively.

We must build one team with one purpose

The Group's transition to the Logica brand name across all its markets at the end of February has provided us with an excellent opportunity to establish one team with one purpose. We will need to intensify the integration of the constituent parts of the organisation – moving more quickly to common systems and processes and investing in growth across the Group whilst not losing our local knowledge, a real differentiator for the Group.

We will have to review our global delivery model and ensure we are globally competitive

Although we have a well-developed blended delivery model, I believe we need to be doing more to ensure that our business is globally competitive. This will inevitably mean reducing our overhead costs and better utilising labour from around the world in a blended delivery model that effectively meets our customers' needs.

Since I started at Logica, we have also reviewed our approach to Corporate Responsibility. This is something I feel passionately about. I believe responsible companies are simply better at attracting and retaining the best people, winning new business and successfully growing their businesses.

Finally, I would like to take this opportunity to thank the whole Logica team for their unwavering commitment and hard work during a difficult period. 2008 will be a busy year at Logica. I genuinely believe that we have the opportunity to build a European leader in IT and business services and I look forward to working with the team to make this happen.

Andy Green

Chief Executive Officer

Board of Directors



Left: Seamus Keating. Right: Andy Green

Andy Green*

Chief Executive Officer, 52

Andy was appointed Chief Executive Officer and a member of the Board on 1 January 2008. He is a member of the Nominations Committee and the Executive Committee.

Previously, Andy was a Board member at BT plc and CEO of Group Strategy and Operations. Until April 2007, Andy was CEO of BT Global Services. During his 21 years at BT, Andy held several senior positions, including that of CEO, BT Openworld.

He began his career with Shell and subsequently joined Deloitte Haskins & Sells. He is a Non-Executive Director of Navteq Inc, and a Board member of e-skills UK, the Sector Skills Council for IT and Telecoms.

He is also a member of the CBI President's Committee and a Companion of the Chartered Management Institute. He holds a degree in Chemical Engineering from Leeds University.

Seamus Keating*

Chief Financial Officer, 44

Seamus has been Chief Financial Officer and a member of the Board since February 2002, having been its Director of Group Finance since 1999.

He came to Logica from Getronics, where he had been Finance Director of its Olivetti Solutions business. Prior to that, he had been Finance Director of Olivetti's UK operations, having joined its finance function in 1989.



Left to right: David Tyler; Noël Harwerth; Gérard Philippot

David Tyler

Non-Executive Chairman, 55

David joined Logica as a Non-Executive Director and Joint Deputy Chairman in July 2007 and became Non-Executive Chairman in November 2007. He is the Chairman of the Nominations Committee of the Board.

David held senior financial and general management positions with Unilever plc from 1974-1986, County NatWest Limited from 1986-1989 and Christie's International plc from 1989-1996. From 1997 to 2006 he was the Group Finance Director of GUS plc. He is currently Chairman of 3i Quoted Private Equity Ltd, and a Non-Executive Director of Reckitt Benckiser plc, Experian Group Ltd and Burberry Group plc (where he chairs the Remuneration Committee).

David brings extensive financial and general management experience to the Board, having worked in the FMCG, finance, services and retail sectors. He has an MA in Economics from Cambridge, is a Fellow of the Chartered Institute of Management Accountants and a Member of the ACT.

Noël Harwerth

Non-Executive Director, 60

Chairman, Remuneration Committee

Noël joined the Board as a Non-Executive Director in January 2007, is Chairman of the Board's Remuneration Committee and a member of the Nominations Committee.

She is currently a Non-Executive Director and Deputy Chair of Sumitomo Mitsui Banking Corporation Europe, a Non-Executive Director of Royal Sun Alliance Insurance Company, Corporate Services Group and Anglo Irish Bank Corporation plc. From 1998 to 2003, Noël was Chief Operating Officer of Citibank International plc in London, where she created a governance model that permitted rapid growth and expansion throughout Europe. Noël has extensive experience in corporate governance, including the UK Combined Code and Sarbanes-Oxley, international finance and risk management. She was educated at the University of Texas in Austin and holds a Jurisdoctor degree from the University of Texas Law School.

Gérard Philippot

Non-Executive Director, 66

Gérard was appointed a Non-Executive Director of the Board in October 2005.

He had been President of Unilog since 1992. During his 13-year tenure there he oversaw rapid growth. Unilog rose from being the 23rd largest IT services company in France to its fourth largest.

Graduating from Ecole Polytechnique in 1962, Gérard began his career as an engineer with the consultancy CGO (Compagnie Générale d'Organisation). In 1968, he teamed up with four former colleagues to establish the Unilog Group. Gérard was appointed a member of the Management Board of Unilog in 1983 and president of Unilog Industrie and Unilog Multi-Systèmes in 1987. In February 2006 he was appointed to the supervisory board of Amboise Investissement SCA.

Crister Stjernfelt*

Executive Director and Executive Vice President – Nordic Region, 64

Crister was appointed to the Board with responsibility for the Nordic Region in October 2006. The former WM-data CEO has over three decades' experience of IT services in the region.

Crister joined WM-data in 1977 as Managing Director of its Danish operations. He became Sales Director for application software in Sweden before being appointed Managing Director for application software operations. He became a member of the Executive Board of WM-data in 1990 and in 1995 was appointed Senior Vice President in

charge of marketing and information. He was appointed President and CEO of the WM-data Group in April 2001.

Jim McKenna*

Chief Operating Officer, 52

Jim was appointed Chief Operating Officer in January 2005. He joined the Board in February 1998 as Chief Executive for Logica in the UK and Ireland. He was previously responsible for Logica in continental Europe and the Middle East. Previously Jim worked for GEC-Marconi and Plessey Company plc and was a Non-Executive Director of AWG plc. He is Chairman of Azzurri Communications.



Left: Jim McKenna. Right: Crister Stjernfelt

Wolfhart Hauser

Non-Executive Director, 58

Wolfhart joined the Board as a Non-Executive Director in January 2007. He is a member of the Audit and Remuneration Committees.

He is currently Chief Executive Officer of Intertek Group plc, having been appointed to their Board as a Non-Executive Director in 2002.

Wolfhart started his career as a scientist in pharmacology and ergonomics before establishing and leading a broad range of successful international service industry businesses in the testing industry. For 10 years he was CEO of TÜV Product Service GmbH and for four years CEO of TÜV Süd AG, the largest testing, inspection and certification company in Germany.

Angela Knight CBE

Non-Executive Director, 57

Angela joined the Board in July 1999. She is a member of the Audit and Remuneration Committees.

She is currently Chief Executive of the British Bankers' Association, and a Non-Executive Director of International Financial Services London (IFSL) and Brewin Dolphin Holdings plc. She is also a trust member (vice chairman) of the Port of London Authority.

From September 1997 to December 2006 Angela was Chief Executive of the Association of Private Client Investment Managers and Stockbrokers (APCIMS). She was also Deputy Chairman of Scottish Widows and a Non-Executive Director of Lloyds TSB plc until October 2006. Angela was the Member



Left: Wolfhart Hauser. Right: Angela Knight CBE

of Parliament for Erewash from 1992 to 1997 and Economic Secretary to HM Treasury between 1995 and 1997.

Roger Payne

**Non-Executive Director, 59
Chairman, Audit Committee**

Roger joined the Board as a Non-Executive Director in September 2004. An FCCA-certified chartered accountant, he is Chairman of the Audit Committee and a member of the Nominations Committee.

In September 2005, he retired from his position as Finance Director of Rentokil Initial plc, a UK-listed FTSE-100 company. In August 2006, Roger was appointed the Senior Independent Non-Executive Director of Biffa plc and Chairman of its Audit Committee. He is also a Non-Executive Director with Nelson and Russell Holdings Limited and an independent member of the Remuneration Committee of the Association of Chartered Certified Accountants.

Wim Dik

Deputy Chairman, 69

Wim joined the Board as a Non-Executive Director in December 2002, having been a non-executive director of CMG since May 2001. He is the Senior Independent Non-Executive Director and a member of the Audit and Nominations Committees.

A professor in the Technology and Management Faculty of the Delft Technical University, he was previously Chairman and CEO of Koninklijke KPN NV, Royal Dutch Telecom. Prior to that, he was Chairman and CEO of Royal PTT Nederland (telecom and post), Chairman of Unilever's Dutch operations and Minister for Foreign Trade in the Dutch Government (1981–82). He



Left: Roger Payne. Right: Wim Dik

holds non-executive positions with Unilever NV, Unilever plc, AVIVA plc, Tele Atlas NV and Zesko Holding BV and is an adviser to Spencer Stuart BV.

Executive Committee



Left to right: John Coleman; Serge Dubrana; Patrick Guimbal

John Coleman

Chief Executive, International, 60

John was appointed Chief Executive International and a member of the Executive Committee of Logica in June 2003, having previously been Managing Director of the UK Telecoms Division. He joined Logica in 1982, holding a variety of sales, line management and senior positions, before moving to the USA to run the West Coast operation. John briefly managed the UK government team in 1993, before then moving into Telecoms, including two years as Telecoms International line of business director from 2000 to 2002.

Serge Dubrana

General Manager, Systems Integration and Outsourcing, France, 49

Serge was appointed General Manager of the Systems Integration and Outsourcing business in France and a member of the Executive Committee of Logica in October 2007, having joined Logica upon the acquisition of Unilog in October 2005.

Serge joined Unilog in 1985 as a consultant, and from 1994 was in charge of their Industry Business Unit. In 2002 he was appointed CEO of Unilog Germany and became a member of Unilog's Executive Committee. Serge joined the Board of Unilog in 2005.

Patrick Guimbal

Chief Executive, Management Consulting; President, Logica in France, 52

Patrick was appointed Chief Executive of Logica in France in September 2007 and a member of the Executive Committee of Logica, in charge of Management and Consulting in January 2006. Patrick joined Unilog in 1997 in order to design and implement a new strategy for Consulting. Prior to this, he rose through the ranks with Bossard, a European management consulting company to become an Executive Committee member.

Joe Hemming

Chief Executive, UK, 45

Joe was appointed Chief Executive of Logica in the UK and a member of the Executive Committee in January 2007, having been managing director of Logica's Space and Defence business since January 2004. Joe gained his early experience in the defence industry at Thorn EMI Electronics in Middlesex, UK before joining Easams, the IT business of the GEC-Marconi group in 1984. Joe moved to Logica in 1995 as commercial director for the Public Sector business and was subsequently appointed chief operations officer of Logica North America in 1998, where he remained until 2001, when he was appointed commercial director of Logica UK and a member of the UK management board.

Paul Schuyt

Chief Executive, The Netherlands, 50

Paul was appointed Chief Executive, The Netherlands in February 2003 and a member of the Executive Committee in April 2004. Having worked for PTT Post (now TPG) Paul joined CMG as a management consultant in 1987. He held various management positions in the Telecoms and Public Sector markets prior to his being appointed country director CMG Benelux in 2002.



Left: Joe Hemming. Right: Paul Schuyt

Nick Caplan

Chief Marketing Officer, 48

Nick was appointed a member of the Executive Committee of Logica in January 2005. He joined Logica in May 2003 as Managing Director International Financial Services. Previous experience has included interim Chief Executive of two software houses where he was responsible for turning the businesses around. Prior to this, Nick was head of CSC's European financial services consultancy, systems integration and outsourcing business and prior to that as operations director of JIB, an organisation providing insurance and risk advisory services to businesses around the world.

Nigel Perks

Group Human Resources Director, 49

Nigel was appointed Group HR Director and a member of the Executive Committee of Logica in March 2004, having been corporate HR Director since September 2001. Prior to joining the Company, Nigel was a board member and European HR Director of Equifax plc. Nigel previously held a variety of senior international HR roles with Prudential and Digital Equipment Co. (DEC).



Left: Nick Caplan. Right: Nigel Perks


Report of the Directors

The Directors present their report together with the Financial statements of the Company and its subsidiaries for the year ended 31 December 2007. These will be laid before shareholders at the Annual General Meeting (AGM) to be held on 14 May 2008.

Business review

The Business review can be found in the following sections of the Annual Report and Accounts:

- ▶ **P29** A review of the development, performance and position of the business as well as an analysis of Key Performance Indicators (KPIs) on pages 29
- ▶ **P31** Our future direction/strategic objectives for the business on page 31
- ▶ **P34** Chairman's statement on page 34
- ▶ **P35** Chief Executive Officer's statement on page 35
- ▶ **P54** Risk Factors are on pages 54 to 55
- ▶ **P74** A glossary of KPIs on pages 74 to 75

These sections are incorporated into this Report by reference. KPIs are identified by the symbol  throughout this Report.

Principal Activities

Throughout the year, the Group was in the business of providing information technology services, concentrating on:

- the marketing, design, production, integration and maintenance of custom-built software and associated hardware systems integration
- consultancy, applications management and project management in the field of information technology
- the design, development, implementation and marketing of software products and the reusable elements of applications software, called systems kernels
- the outsourcing of information technology and business services

Results and Dividends

Consolidated revenue amounted to £3,073.2 million, compared with £2,420.7 million (restated)* for the year ended 31 December 2006. The profit before tax was £84.1 million compared with £116.6 million (restated)* for the year ended 31 December 2006. The profit attributable to equity holders of the parent company was £169.9 million compared with £82.0 million for the previous year. Basic earnings per share from total operations were 11.4 pence (2006: 6.7 pence (restated)*). Adjusted basic earnings per share from continuing operations were 10.2 pence (2006: 10.4 pence (restated)*). Net debt at 31 December 2007 stood at £483.2 million (2006: £557.1 million).

*Restated: 2006 reported figures have been restated to reflect the disposal of the Telecoms Products business. See notes to the accounts for details.

The Directors have proposed a final dividend of 3.5 pence per share (2006: 3.4 pence per share) which, when taken with the interim dividend of 2.3 pence (2006: 2.2 pence per share) paid to shareholders on 19 October 2007 will amount to a dividend for the year of 5.8 pence (2006: 5.6 pence per share). If approved, the final dividend will be paid on 15 May 2008 to eligible shareholders on the register at close of business on 18 April 2008.

The Board's dividend policy is to ensure that shareholders benefit directly from the successful growth of the business, while continuing to provide sufficient funds to invest in future growth.

▶ **P130** Dividend waiver details are set out in note 31 on page 130

Share Capital

The share capital of the Company, issued and unissued, consists entirely of one class of ordinary shares of 10 pence each. Each share ranks equally and carries the same rights to vote and receive dividends and other distributions declared, made or paid by the Company. No restrictions exist on the transfer or holding of securities in the Company under the Articles of Association.

At the AGM held on 24 May 2007, the shareholders approved a resolution giving the Company authority to purchase up to 153,701,812 of its ordinary shares. Following the sale of the Group's Telecom Products business for £265 million, the Board determined that £130 million should be returned to shareholders in the form of a share buy back programme. The Company repurchased 83,591,195 of its ordinary shares representing 5.73% of the issued share capital as at 31 December 2007. The repurchased shares were cancelled. The share buy back programme ran from June to November 2007. The Directors will be seeking to renew the authority to make market purchases up to a maximum of 10% of the issued share capital of the Company at the AGM on 14 May 2008 when the current authority will expire. At the present time the Company has no plans to exercise this authority.

The issued ordinary share capital was increased by 5,538,792 ordinary shares during the year as a result of the exercise of options under the Sharesave, Executive Share Option Scheme and Management Incentive Arrangement. However, due to the share buy back programme the overall share capital decreased and at 31 December 2007 the issued ordinary share capital totalled 1,457,646,079 shares.

▶ **P42** Details of shareholders with a significant and disclosable holding are set out in the substantial shareholding note on page 42

The Company offers a number of share plans for its employees. The rights attached to ordinary shares which are the subject of awards within any of the Company's share plans are not available until any share award or option granted is exercised and the shares are allotted or transferred to that awardee.

The Trustee of each of the Company's employee benefit trusts is obliged to act in the best interests of the share plans' beneficiaries. At General Meetings, the Trustee may exercise discretion and vote in respect of shares held in the Trust although they may not always choose to do so. Where shares are beneficially held by an employee within a share plan they may direct the Trustee to vote on their behalf.

Restrictions on Voting Rights

All shareholders entitled to attend and vote may appoint a proxy or proxies to attend, speak and vote in their place at General Meetings. A member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a shareholder of the Company. Proxy forms must be received by the Company's Registrars at least 48 hours before the time appointed for holding the meeting as set out in any Notices concerning a General Meeting or in any form or proxy sent by or on behalf of the Company in relation to the Meeting. The appointment of a proxy does not preclude a shareholder from attending and voting in person at a General Meeting. Further details may be found in the Notice of Meeting and the proxy card.

Issue of New Share Capital

In order to allot equity securities the Directors require express authorisation from shareholders. The authority can be granted for a period of five years. However, the Company follows best practice and seeks shareholder approval annually to allot the Company's equity securities. Under the Companies Act 1985, the Board may not allot shares for cash, except pursuant to employee share plans, without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a Special Resolution of the shareholders.

At the AGM held on 24 May 2007 the Directors were granted the authority to allot the Company's unissued shares up to an aggregate nominal amount of £50,721,597. This amount represented one third of the Company's issued Ordinary Share capital as at 29 March 2007. Shareholders will be asked to renew this authority at the AGM on 14 May 2008.

Creditor Payment Policy and Practice

The Companies Act 1985 (Directors' Report) Regulations 1997 (Statement of Payment Practice) require the Company to make a statement of its policy and practice on the payment of creditors. The Company and its subsidiaries seek the best possible terms from suppliers appropriate to their businesses and, in placing orders, give consideration to quality, delivery, price and the terms of payment which will be agreed with suppliers when the details of each transaction are agreed. The Company and its subsidiaries will continue to honour their contractual and other legal obligations and to pay creditors on the dates agreed in contract and purchase orders. At 31 December 2007, the number of days of annual purchases represented by year-end trade creditors for the Group amounted to 55 days (2006: 53 days) and for the Company amounted to nil days (2006: 13 days).

Research and Development

During the year the Group invested £21.7 million (2006: £40.2 million) in research and development on software products, of which £6.7 million (2006: £11.3 million) was capitalised.

Financial Instruments

The exposure of the Group to financial risks including the use of financial instruments and policies for hedging and the exposure to price, credit, cash flow and liquidity risk can be found in Note 26 to the Financial statements.

Amendment to the Articles of Association of the Company

A Special Resolution will be proposed at the AGM on 14 May 2008 to adopt new Articles of Association. The amendments to the Articles are primarily to reflect the provisions of the Companies Act 2006 which are already in force, or which will come into effect during 2008. Under the Companies Act 1985 a company may only amend its Articles of Association if the members pass a Special Resolution to that effect. A Special Resolution is passed if more than 75% of the votes cast, in person or by proxy, are in favour of the resolution.

Agreements

There are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Directors

In accordance with the Articles of Association the appointment of new Directors must be ratified by the shareholders at the Annual General Meeting following their appointment. In addition, one-third of the Directors of the Company (not including any newly appointed Directors) must retire by rotation and seek re-election by the shareholders at each AGM. Every Director should seek re-election by shareholders at least every three years.

► **P45** Further details of the election and re-election of the Directors can be found in the Corporate governance section on page 45

The following changes to the Board were made during the year:

- 24 May 2007** Helmut Mamsch retired as Deputy Chairman and Senior Independent Director (SID)
Wim Dik appointed as Deputy Chairman and SID
- 18 July 2007** David Tyler appointed as Deputy Chairman
- 24 July 2007** Didier Herrmann removed as an Executive Director
- 21 Sept 2007** Martin Read retired as Chief Executive Officer
Jim McKenna appointed to act as Interim Chief Executive Officer
- 1 Nov 2007** Cor Stutterheim retired as Chairman
George Loudon retired as a Non-Executive Director
David Tyler appointed as Chairman
- 1 Jan 2008** Andy Green appointed as Chief Executive Officer

► **P36** The biographical details of the current Directors are listed on pages 36 and 37

► **P44** The current governance structure of the Board is illustrated on page 44

Report of the Directors

Directors' Interests

► **P67** **Directors' Interests in the shares of the Company on 31 December 2007 are shown in the Remuneration Committee Report on page 67**

The Register of Directors' Interests is available for inspection during business hours at the Group's head office and will be available for inspection at the 2008 AGM.

Directors' and Officers' Insurance

The Company maintains insurance cover for all Directors and Officers of Group companies against liabilities which may be incurred by them while acting as Directors and Officers.

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law and the Company's Articles of Association, against all costs, charges, losses and liabilities that they may incur in the execution of their duties, powers, authorities and discretions as Directors of the Company, or any other company of which, at the request of the Company, they are Directors or Officers. Copies of these indemnities are kept at the Company's registered office and are open for inspection by any member of the Company. However, these indemnities do not cover the Directors or Officers for fraudulent activity.

Substantial Shareholdings

At 20 March 2008 the Company had been notified that the following had an interest in 3% or more of the Company's share capital. The percentages below have been calculated on the current share in issue figure.

Name	Number of Shares	%
Schroders Investment Management Ltd	179,834,325	12.33
Aviva Plc	134,354,731	9.21
UBS Global Asset Management	101,455,905	6.95
Fidelity International Ltd	76,334,203	5.23
Legal & General Group Plc	75,534,172	5.18
Axa Investment Managers	72,043,934	4.94
Newton Investment Management Ltd	57,498,721	3.94

Employment Policies

The Group operates in a number of countries and its employment practices vary to meet local conditions and requirements. In all cases, they are established on the basis of best practice in that country. There is no discrimination against people with disabilities who apply to join the Group and anyone within the Group with a disability is awarded the same opportunities for promotion, training and career development as other staff.

Employee Involvement

The Company is committed to ensuring that employees share in the success of the Company. Employees are encouraged to participate in share option and share purchase plans.

The Group continued its policy of informing and involving employees in matters which concern them through the use of regular meetings between management and employees, corporate news magazines, intranets, the issue of bulletins and briefings. To encourage feedback and suggestions from employees, an annual staff survey is undertaken. The results of the survey are provided to the Board, HR and all employees.

► **P78** **Further details on our Employment policies and employee involvement are included in the Corporate responsibility report on pages 78 to 81**

Equal Opportunities

The Group is committed to providing equal opportunities to all employees irrespective of their gender, sexual orientation, marital status, age, religion, race or disability. It is the Group's policy to give full and fair consideration to disabled persons with respect to applications for employment, continued employment, training, career development and promotion, having regard to each individual's particular aptitudes and abilities.

Branches

The Group continues to operate a number of overseas branches.

Events after the Balance Sheet Date

See page 95 and note 42, page 145 of the Financial statements.

Remuneration Committee Report

► **P56** **The Remuneration Committee report is set out on pages 56 to 73**

Auditors

After due and careful consideration, the Directors have recommended the reappointment of PricewaterhouseCoopers LLP as the Company's auditors. PricewaterhouseCoopers LLP has expressed its willingness to continue in office and therefore a resolution for their reappointment will be proposed at the forthcoming AGM.

Auditors' Right to Information

Each person who is a Director of the Company at the date of approval of this report confirms that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The Company's Annual General Meeting (AGM) will be held on 14 May 2008 at 3.00pm at the Radisson Edwardian Grafton Hotel, 130 Tottenham Court Road, London W1T 5AY. A summary of the resolutions being proposed at the 2008 AGM is set out below:

Ordinary Resolutions

- To receive the Directors' and Auditors' reports and the Audited Accounts for the year ended 31 December 2007
- To approve the final dividend of 3.5 pence for each ordinary share for the year ended 31 December 2007
- To approve the Remuneration Report for the year ended 31 December 2007
- To reappoint PricewaterhouseCoopers LLP as auditors of the Company and to fix their remuneration
- To elect David Tyler as a Non-Executive Director
- To elect Andy Green as an Executive Director
- To re-elect Jim McKenna as an Executive Director
- To re-elect Roger Payne as a Non-Executive Director
- To re-elect Wim Dik as a Non-Executive Director
- To renew the authority to incur political expenditure
- To renew the authority given to the Directors to allot securities

Special Resolutions

Under the terms of the Companies Act 2006 the following approvals must be sought as Special Resolutions, such resolutions will be passed if 75% or more of the votes cast are in favour:

- To change the Company name to Logica plc
 - To renew the authority given to the Directors to allot securities for cash other than on a pro-rata basis to shareholders
 - To renew the Company's authority to purchase its own shares
- This will allow the Company to repurchase the Company's Ordinary Shares up to a maximum of 10% of the issued share capital. Further information can be found in the Chairman's circular
- To adopt new Articles of Association

This is only a summary of the business to be conducted at the AGM, the full details of the resolutions can be found in the Notice of Meeting, a copy of which is available on the Company's website at www.logica.com or can be obtained from the Company Secretary.

► logica.com/investors

Charity

Our staff continue to be generous in their support for charitable causes. The Company supports 'give as you earn' schemes to facilitate financial donations by staff via the payroll. In addition, the Company encourages staff to support charities and participate in local charitable events and, where possible, donates surplus computers to local good causes.

When making charitable donations, the Company's aim is to develop partnerships with national charities and non-governmental organisations in the countries in which it operates. Total UK charitable donations in 2007 were £95,000 (2006: £45,000).

Our community and charity policy is aimed at developing people in need to help them release their potential. Given Logica's role in the knowledge economy we have chosen the education of people, particularly children, as our priority area of community work. We support projects that actively involve our employees and, where possible, make use of their technical knowledge and expertise. We also encourage our employees to raise money for causes that support the objective of our community policy.

Political Donations and Contributions

The Company's policy is not to make any donations or contributions to political parties or organisations and no such payments were made during the year. However, the UK Political Parties, Elections and Referendums Act 2000 (the "Act"), defines political donations and political expenditure so broadly that some of our activities may fall within the definitions in the legislation. To ensure that the requirements of the Act, along with the requirements of the Companies Act 2006, are met, we will seek shareholder authority at the AGM for such expenditure.

Future Developments

Further information on the future developments can be found on page 31 of the Business review pages and the Chief Executive's report on page 35.

By order of the Board



P Weaver FCIS

Company Secretary
20 March 2008

Corporate governance report

The Board endorses and supports the best practice guidelines contained in the 2006 Financial Reporting Council's Combined Code (the Combined Code) through its commitment to the highest standards of corporate governance. Apart from a few limited exceptions as described below, the Board believes that the Group has fully complied with the Combined Code throughout 2007; where it has not, an explanation has been provided. The Company has complied with the listing requirements of the UK Listing Authority and those of the Authority for the Financial Markets (AFM) in the Netherlands. The Company also complies with the rules and regulations of the Nordic exchange and the Swedish financial supervisory authority, (Finansinspektionen), which authorises, supervises and monitors all companies operating in the Swedish financial market.

The Board

The Board utilises a framework of prudent and effective controls in order to determine and manage the Group's goals, together with the necessary strategies and policies to achieve these goals. The Company's values and the standards set by the Board are upheld throughout the Group with the assistance of the Executive Management, Internal Audit, Quality Assurance and Risk Management functions. During 2007 the Board has considered reports from the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer, together with reports from heads of business and specialist functions.

The Board ordinarily meets six times a year and is available to hold additional meetings when circumstances require (five additional meetings in 2007). The number of routine meetings is judged to be sufficient to discharge the Board's duties effectively. In order to reflect the geographical spread of the Group, and to provide the Board with a higher level of visibility to the Group's overseas operations, at least

one of these meetings is normally held outside the UK, although no Board meetings were held outside the UK in 2007.

► **P52**

A table showing the attendance of Directors at scheduled meetings of the Board can be found on page 52

Proposed actions are recorded in the Board minutes or, where appropriate, in relevant Committee minutes, together with any concerns that members of the Board may have regarding the running of the Company.

► logica.com/governance

The Terms of Reference for the Board are available on the Company's website or can be obtained from the Company Secretary

Board composition

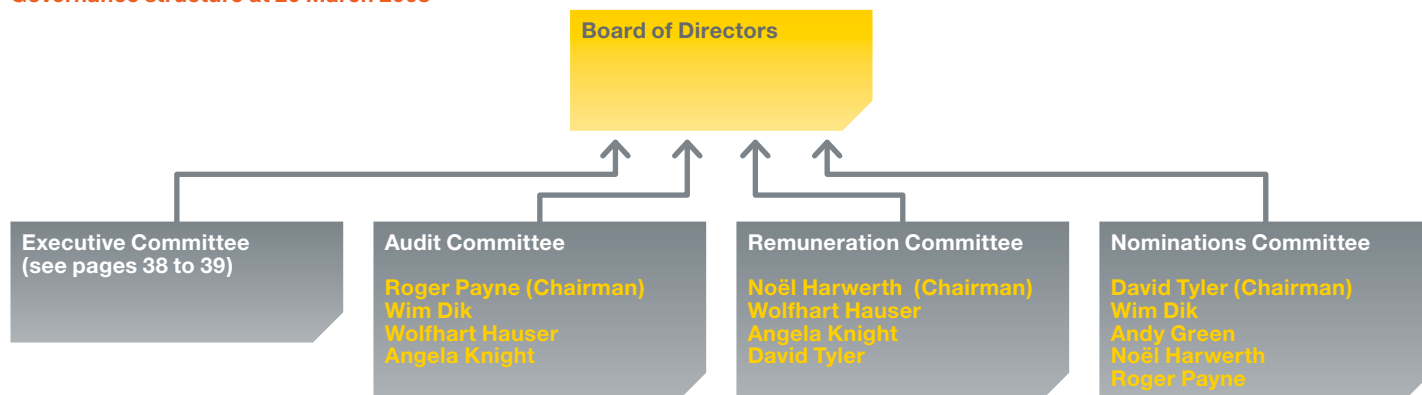
At the date of this report the Board is comprised of the Chairman, four Executive Directors and six Non-Executive Directors. Following the planned departure of Jim McKenna and Angela Knight later in 2008, the number of Directors will reduce to nine, comprising the Chairman, three Executive Directors and five Non-Executive Directors. The roles of the Chairman and Chief Executive Officer are separate and each has clearly defined responsibilities.

As part of our ongoing succession planning programme and in line with feedback received from shareholders during the year, a number of changes were made to the Board during 2007. Details of the changes made to the Board during the year can be found on page 41.

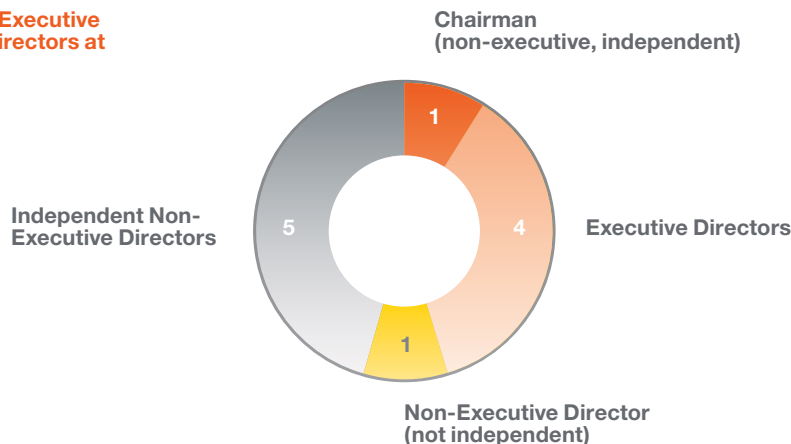
► **P36**

Biographical details of the current Directors can be found on pages 36 to 37

Governance structure at 20 March 2008



Balance of Non-Executive and Executive Directors at 20 March 2008



The Board has a Nominations Committee to evaluate the balance of skills, knowledge and experience of individual Board members and to make, where appropriate, recommendations for appointments to the Board. During 2007 suitable candidates for the position of Deputy Chairman were identified while undertaking an external search for independent Non-Executive Directors. In addition, independent external recruitment consultants were appointed to help identify potential candidates for the role of Chief Executive Officer. Interviews with candidates were undertaken and recommended appointments were unanimously approved by the Board. Cor Stutterheim, with the support of Wim Dik, led the Committee in the process for appointing the Deputy Chairman and David Tyler led the process for appointing the Chief Executive Officer.

Following the appointment of Directors by the Board, in accordance with the Articles of Association, Noël Harwerth and Wolfhart Hauser's appointments were ratified by the shareholders at the Annual General Meeting in 2007. Andy Green and David Tyler will be proposed for election at the forthcoming AGM in 2008. The Nominations Committee, in accordance with its terms of reference and the Company's Articles of Association, has proposed Jim McKenna, Roger Payne and Wim Dik for re-election at the 2008 AGM. Directors submitting themselves for re-election at the AGM have been subject to a rigorous, formal performance evaluation and were found to have performed effectively during the year. Copies of the Directors' terms and conditions of appointment are available on request from the Company Secretary.

Although Jim McKenna will be leaving the Company during the latter half of 2008, it has been three years since he last retired by rotation and it is therefore still necessary for him to stand for re-election at the forthcoming AGM.

► **p36**

The names and biographical details of the Directors, including those seeking election and re-election at the 2008 AGM, can be found on pages 36 to 37

Non-Executive Directors' Independence

The Board recognises the valuable contribution independent Directors can make. During 2007 the Board considered the independence of the Non-Executive Directors and concluded that each of the Non-Executive Directors were independent in character and judgement. However, under the Combined Code, Cor Stutterheim, who retired on 1 November 2007, and Gérard Philippot were not considered independent during the year according to provisions A.2.2 and A.3.1 respectively, due to their previous executive positions in CMG plc and Unilog S.A. respectively. The Company believes that all Non-Executive Directors bring relevant experience to the Board and make valuable contributions to achieving its objectives. They do not act with self-interest and their primary aims are to maximise shareholder wealth and develop the Company in line with its strategic goals.

During the year, the Company believes that none of the Non-Executive Directors held significant commitments outside the Company which would interfere with their ability to execute their responsibilities effectively.

Corporate governance report

Communication with shareholders

The Board gives a high priority to communication with shareholders and takes the opportunities afforded by the AGM and meetings with institutional investors to ensure a mutual understanding of the Company's objectives and performance. During the year, members of the Board have listened to a number of key investors in order to understand their views fully. These exchanges led to the Nominations Committee and the Board reconsidering the size and structure of the Board, and led to its restructuring during 2007.

All shareholders are welcomed to the AGM where developments in the business are explained and shareholders have the opportunity to ask questions of any of the Directors.

The Company's website www.logica.com provides access for all shareholders to information about the Company, including results presentations and all press releases. Financial reporting is presented in such a way as to provide a balanced and understandable assessment of the Company's position and prospects.

The Board is made aware of shareholders' views through feedback from face-to-face meetings and presentations with institutional shareholders. If shareholders or investors do not wish to follow the usual methods of communication through the Chairman, Chief Executive Officer or Chief Financial Officer, the Board's Senior Independent Director, Wim Dik, is available to meet with shareholders or investors and can be contacted through the Company Secretary. Directors are regularly updated on shareholder and market matters through internal briefings and the provision of external analysts' reports. The Company's Investor Relations department is dedicated to facilitating communication with investors, both retail and institutional.

► logica.com/investors

Further information on Investor Relations can be found on the Company's website

Chairman and Chief Executive Officer

There is a clear division of responsibility between the running of the Board by the Chairman, and the Chief Executive Officer's responsibility for running the business. The Chairman is responsible for ensuring the effectiveness of the Board and is Chairman of the Nominations Committee. He also liaises with the Chief Executive Officer on strategic issues. The Chief Executive Officer is responsible for the overall management of the Company and for leading the Executive Directors and the Executive Committee.



Details of the Executive Committee can be found on pages 38 to 39

Induction and Training

Upon appointment, all Directors undergo a comprehensive induction programme, tailored to their individual requirements. The induction is arranged by the Company Secretary and the Group HR Director. The induction programme includes training on Directors' duties and responsibilities, Board procedures and various governance-related issues, including procedures for dealing in LogicaCMG plc shares. In addition, they meet with the heads of all the major business units and receive appropriate ongoing training and updates to improve their knowledge and skills to enable them to discharge their duties effectively. The Directors' training requirements are subject to regular review. As part of the induction programme Directors also make a number of site visits. Members of individual Committees receive specific training in connection with their duties, which includes attendance at seminars and briefings by external advisers where applicable.

Board Support

The Company Secretary, through the Company Secretariat function, is responsible for providing administrative and logistical support to the Board. The Company Secretary also provides advice and support on governance, compliance and regulatory matters. All Directors have access to the advice and services of the Company Secretary and a procedure is in place to enable Directors to seek independent professional advice at the Company's expense. No such advice was sought by any Director during the year, other than Martin Read who sought professional advice in respect of his pension. The Remuneration Committee gave prior approval in respect of this advice. The Company Secretary acts as Secretary to the Board and its Committees.

Board Performance 2007

The Board is subject to an annual performance review which covers the effectiveness of the Board, its Committees and individual members and takes into account factors such as composition, expertise, information flows, roles, responsibilities and procedures. In 2007, we conducted a full review in line with this process. Each Director completed a comprehensive questionnaire, following which one-to-one interviews were conducted by the Chairman with each Director. The information from the questionnaires and interviews were compiled into a report which was presented to the Board early in 2008.

As part of this process, any director who has served on the Board for a period in excess of six years is subject to a particularly rigorous review.

The performance of the Chairman was assessed by the Non-Executive Directors. The process for this was led by the Senior Independent Director with all Directors providing feedback on the Chairman's performance. The results were discussed with the Chairman by the Senior Independent Director.

During 2007 Jim McKenna, acting Chief Executive Officer held one-to-one meetings with each of the Executive Directors to discuss their performance at the end of 2007 and to set targets for the year ahead. Each Executive Director received a set of objectives for the coming year.

There are regular meetings between the Chairman and the Non-Executive Directors to discuss the performance of the Company, together with any matters of relevance or concern at that time, where appropriate action is taken to address the concerns of the Directors.

Follow up from 2006 Board Evaluation

Following the results of the 2006 Board evaluation process, the actions implemented in 2007 included:

- the review of the Board's succession plans and their implementation
- the level of communication between the Chairman and individual Directors. This was increased to facilitate faster feedback and decision making within the Board
- the review of succession planning at senior management level. This led to the Group's HR Director presenting a leadership development plan to the Board.

Audit Committee

The composition of the Company's Audit Committee and its terms of reference reflect the Combined Code and the Smith Guidance.

The Committee is authorised by the Board to investigate any activity within its terms of reference and to seek any information that it requires from any employee of the Company and its subsidiaries. All employees are directed to cooperate with any request made by the Committee. The Committee has the right to consult the Company's professional advisers or, if it is not satisfied with the advice received, seek further independent professional advice at the Company's expense in the furtherance of its duties. The Committee believes that the skills, qualifications and commercial experience of its members are appropriate for them to perform their duties in accordance with the terms of reference laid down by the Board.

The Audit Committee, which comprises all independent Non-Executive Directors, is chaired by Roger Payne and, for 2007, included Angela Knight, George Loudon (retired 1 November 2007), Wim Dik and Wolfhart Hauser. The Board considers Roger Payne to have recent and relevant financial experience following his role as a former financial director of a FTSE 100 listed company. The Committee meets at least four times a year and any two members constitute a quorum.

The Chairman of the Audit Committee and the Committee itself meet with the external auditors in private at least four times a year. The Chairman, Chief Executive Officer, Chief Financial Officer, Deputy Chief Financial Officer, Head of Internal Audit and other appropriate specialist functional managers attend the scheduled meetings at the request of the Committee. The Chairman of the Audit Committee meets with the Head of Internal Audit in private at least four times a year.

Corporate governance report

In order to fulfil its terms of reference, the Committee reviews, challenges and approves, as the case may be, presentations or reports from senior management, consulting as necessary with the external auditors. During the year, the Committee had a satisfactory level of dialogue with the Company's auditors. During the year, the Committee specifically considered, amongst other things, the following matters:

- the performance of its independent auditor, PricewaterhouseCoopers LLP (PwC) (including qualifications, expertise and resource, effectiveness, objectivity and independence), and recommended to the Board their re-election as the Company's independent auditors for 2007
- the review and approval of PwC's 2007 proposed fee and audit programme. The Committee subsequently received and considered PwC's report, which summarised the conclusions from their 2006 audit. This report included feedback from PwC on the status of the Company's control environment and management's responsiveness to audit results
- the appropriateness of the Company's accounting policies were also reviewed and approved
- the review and approval of the Company's ongoing policy for using PwC for non-audit work. This policy is designed to ensure PwC's independence and that the Company complies with best practice
- the review of the 2006 full-year preliminary and 2007 interim announcements
- the review of the Company's 2006 Annual report and accounts, in particular the financial overview, report of the Directors, Financial statements (including notes to the accounts) and relevant sections of the Corporate Governance report. These were recommended for approval to the Board
- the search process for a new Head of Internal Audit following the move of the incumbent to a financial role and the interim management arrangements of the function pending the recruitment of a new Head of Internal Audit
- the reports and updates from the Company's internal audit and quality assurance functions. The internal audit and quality assurance plans for 2007 were reviewed and approved. These reports and updates additionally covered the Company's management of its internal controls
- the appointment of Ernst & Young LLP to undertake an independent review of the effectiveness of the Internal Audit function. A number of recommendations were made following the review which will be implemented during the course of 2008
- the reports from the Company's Risk Management Committee (RMC) regarding the Company's risk management policy and programme of work. The Committee and the Board also received reports concerning specific key risks identified by the RMC. In addition, the impact of changing legislation and regulation, were considered and where necessary, appropriate actions were taken
- the review of the financial position of the Company's defined benefit pension schemes
- the implementation of a policy in respect of the recommended investigation of potential/actual fraud
- the annual review of the Company's tax and treasury policies in accordance with its terms of reference. Both policies were approved
- an extensive goodwill evaluation covering the Group's activities which supported the carrying value thereof with no impairment deemed necessary
- a review of the processes in respect of the costing, pricing and controls on large, long term contracts, following a profits warning in May 2007, involving both executive management and the Company's external auditors PwC. As a consequence of this, additional controls and closer monitoring of such controls were put in place
- at each Audit Committee meeting, the Committee reviews any matters, as required, relating to a number of standing items including major acquisitions/divestments; progress concerning actions taken in response to the Committee's representations; relevant legal, reporting practices and compliance developments, reports filed under the Company's confidential disclosure policy; compliance with the Company's code of ethical conduct, including 'whistleblowing', and any other special investigations falling under the terms of reference of the Audit Committee.

► logica.com/governance

The full Terms of Reference for the Audit Committee are available on the Company website or can be obtained from the Company Secretary

Internal control

The Annual report provides information on, and an assessment of, the Company's business, operations, financial position and prospects.

The Board has reviewed the effectiveness of its internal control systems for the accounting year and the period to the approval of the Financial statements on 20 March 2008. Except as specifically mentioned in the previous section, no significant weaknesses were noted. Procedures have been established to ensure that the Group can comply with guidance on internal controls issued by the Turnbull Committee and those included in the Combined Code.

The review of the Group's system of internal control covered all material controls, including financial, operational and compliance controls and risk management systems and is in accordance with the Turnbull guidance and the Combined Code. Action has been taken to ensure that the Unilog and WM-data businesses have suitable internal controls in place, which are consistent with the UK requirements.

The Company's approach to internal control is based on the underlying principle of line management's accountability for risk and control management. The Company has a risk-based approach to internal control, and management are responsible for implementing, operating and monitoring the system. No system of internal control can completely eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss. However, we are satisfied that we have the right procedures in place to guard against relevant risks.

The key elements of the control system in operation are:

- a highly structured, objectives-driven approach to fulfil its core purpose and goals in respect of sustained profitability and growth. The objectives of the Group are developed by the Executive Committee and approved by the Board, which addresses revenue and associated costs and necessary investment. This plan then forms the basis of annual revenue growth and profit targets for the operating units in the Group
- the research and development and capital investment programmes which are subject to a formal review procedure requiring that rigorous qualification criteria be met prior to each instance of material investment. Evaluation and post-investment appraisals are performed by reference to detailed business plans
- the monitoring regime established by the Board, through which the performance indicators derived from the strategic and annual plans are regularly interrogated. This ensures that events which pose significant risk to the attainment of the Group's objectives or significant control lapses are communicated through a process of rapid escalation to senior management. Unit performance is evaluated on a monthly basis, and this evaluation includes the addressing of identified control weaknesses and ensuring the conclusion of previously recommended corrective actions
- business unit management throughout the Group and specific corporate functional managers are required to complete a full assessment of controls annually. With the completion of this process, management can identify and quantify the risks that face their businesses and functions. This process also provides assurance as to risk and internal control management, financial controls and reporting, project control, treasury management and information management.

Corporate governance report

Risk management

The Board recognises the need to understand and control the variety of risks to which the Company is exposed. In order to address these challenges, the Board through the Audit Committee oversees the Risk Management Committee (RMC) chaired by the Chief Financial Officer. Through the Audit Committee and the RMC the Board exercises a framework for managing risk within the Group. Five practice panels support the RMC and are responsible for the areas of delivery, operations, finance, human resources, and sales and marketing. In conjunction with these panels, the RMC is responsible for the regular evaluation of generic and specific risks within the business and the implementation of mitigation plans to address them.

The risk process identifies, evaluates and manages significant risks faced by the Group. Risks are assessed with reference to the achievement of the Group's business objectives and according to current market and economic issues. The continuous monitoring of strategic and operational risks is the responsibility of the Board and line management respectively. The risk process has been in place for the year under review and up to the date of this Annual report.

Clearly defined delegation of responsibilities and authorisation levels contribute to a comprehensive system which exists for controlling these risks and ensuring they are adequately addressed. Core operating procedures common to all areas of the Group are clearly documented in Cortex (see page 27). The internal audit and quality assurance functions perform regular audits and are part of line management's risk management responsibilities. Regular internal control reviews are presented to the Audit Committee on at least a six-monthly basis. Audit Committee papers, including internal control reviews, are circulated to all Board members.

▶ P54 The key risks and measures to mitigate risks identified by the Board are listed on pages 54 to 55

Conclusions from the Group's risk management activities are taken into account when evaluating and managing the Company's KPIs, which are detailed in the Business review on page 29.

External auditors

The external auditors provide a supplementary, independent perspective on the overall integrity of those areas of the internal control system which they assess in the course of their work. Their findings are reported regularly to the Audit Committee. The Audit Committee assesses the evidence provided to them and seeks to ensure that the risk management process adequately addresses all of the major risks to the Group. To ensure auditor objectivity and independence there is a stringent process in place to approve non-audit work. Proposed work must be approved by the Chief Financial Officer before being passed to the Audit Committee for approval. Copies of all internal audit reports are automatically copied to external auditors to ensure communication is both comprehensive and transparent.

▶ P113 Details regarding the remuneration of the external auditors for both audit and non-audit work can be found on page 113

Going concern

The Directors, having made enquiries, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and therefore it is appropriate to maintain the going concern basis in preparing the Financial statements.

Nominations Committee

The Nominations Committee, which comprises a majority of independent Non-Executive Directors, was chaired by Cor Stutterheim until his retirement on 1 November 2007, when he was succeeded by David Tyler. Its members also include Roger Payne and Wim Dik. Helmut Mamsch, Martin Read, Cor Stutterheim and George Loudon all left the Committee during 2007 upon their retirement from the Board. In early 2008 Andy Green and Noël Harwerth joined the Committee. Other Directors are entitled to attend at the invitation of the Nominations Committee. The Committee reviews the balance of skills, knowledge and experience represented on the Board and its committees and makes recommendations to the Board concerning any adjustments deemed to be appropriate.

Under its terms of reference the Committee oversees the search and selection process for new Directors and aims to do so as recommended by the Combined Code. The Committee can engage external independent professional advisers to assist when seeking potential Board members. A shortlist of candidates will normally be established and selected candidates will be interviewed and recommended for consideration by the Board. The Committee was convened on three scheduled occasions during 2007.

► p52

The attendance schedule for Board and Committee meetings can be found on page 52

Other meetings were convened on an ad hoc basis as required.

During 2007 the Committee undertook a review of the succession planning for the Board, which also took into consideration the balance between independent and non-independent Directors. The Nominations Committee is also responsible for overseeing the Board appraisal process.

The Committee meets at least twice a year and any two Committee members constitute a quorum.

► logica.com/governance

The full Terms of Reference of the Nominations Committee are available on the Company's website or can be obtained from the Company Secretary

Remuneration Committee

The Company's Remuneration Committee is comprised of at least three independent Non-Executive Directors in accordance with the recommendations of the Combined Code.

Angela Knight chaired the Remuneration Committee until 5 November 2007 when Noël Harwerth assumed the chairmanship. Angela remained as a member of the Committee to ensure a smooth handover to Noël prior to Angela's retirement at the Annual General Meeting in 2008. Its other members are currently Wolfhart Hauser and David Tyler. Helmut Mamsch and George Loudon both retired from the Committee when they left the Board on 24 May 2007 and 1 November 2007 respectively.

The Committee is authorised by the Board to investigate any activity within its terms of reference. The Committee has the right to appoint independent advisers and, if it is not satisfied with the advice received, seek further independent professional advice at the Company's expense in the furtherance of its duties. For the year reported, Kepler Associates were the principal independent advisers to the Committee.

The Committee believes that the skills, qualifications and commercial experience of its members are appropriate for them to perform their duties in accordance with the terms of reference laid down by the Board.

The Committee's key role is to determine the Company's senior executive remuneration policy and levels of remuneration for the Company's Executive Committee, the higher paid senior management, Company Secretary and Head of Internal Audit. The Committee takes into consideration the pay and conditions of employment for employees when considering Executives' remuneration.

► p56

Details of the Committee's main functions and its remuneration policies for Directors and senior management are set out on pages 56 to 58

The Chief Executive Officer and the HR Director (non-Board member) attend the Committee meetings at the invitation of the Committee.

The Committee routinely meets at least four times a year and any two Committee members constitute a quorum.

► logica.com/governance

The full Terms of Reference of the Remuneration Committee are available on the Company's website or can be obtained from the Company Secretary

Corporate governance report

Board attendance

The table below shows the attendance of Directors at scheduled meetings of the Board and Audit, Remuneration and Nominations Committees during 2007.

Directors are normally provided with the agenda and papers for Board and Committee meetings one week prior to the meetings. Directors who are unable to attend a meeting provide feedback to the Chairman, Chairman of the Committee or the Company Secretary and their comments are then communicated at the meeting.

External appointments

Executive Directors are normally permitted by the Company to accept and maintain one non-executive appointment at any one time. Fees earned by Executive Directors are retained by the relevant Director, which reflects the personal risk assumed in such appointments. This remuneration is fully disclosed in the relevant Company's Annual report and accounts.

▶ **p36** See biographical details of the Directors on pages 36 to 37

Board attendance at scheduled meetings during 2007

Member	Board meetings		Audit Committee		Remuneration Committee		Nominations Committee	
	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible
David Tyler*	2 (C)	2					0 (C)	0
Seamus Keating	6	6						
Jim McKenna	6	6						
Martin Read*	5	5					2	2
Crister Stjernfelt	6	6						
Wim Dik	6	6	6	6			3	3
Didier Herrmann*	4	4						
Angela Knight	6	6	6	6	5 (C)	5		
George Loudon*	5	6	4	5	3	5	3	3
Helmut Mamsch*	2	3			2	3	1	2
Roger Payne	6	6	6 (C)	6			1	1
Gérard Philippot	5	6						
Cor Stutterheim*	6 (C)	6					3 (C)	3
Wolfhart Hauser	6	6	5	6	5	5		
Noël Harwerth	6	6			5 (C)	5		

Member
Non-member

(C) Denotes
Chairman of
the Board or
Committee

*Board Changes

David Tyler was appointed to the Board with effect from 18 July 2007 and became Chairman of the Board on 1 November 2007 and Chairman of the Nominations Committee on 17 November 2007. He became a member of the Remuneration Committee on 5 November 2007.

Helmut Mamsch resigned from the Board on 24 May 2007.

Martin Read resigned from the Board on 21 September 2007.

Didier Herrmann was removed from the Board on 24 July 2007.

George Loudon and Cor Stutterheim resigned from the Board on 1 November 2007. Cor Stutterheim also resigned as Chairman of the Nominations Committee on 1 November 2007.

Roger Payne was appointed to the Nominations Committee with effect from 4 June 2007.

Angela Knight resigned as Chairman of the Remuneration Committee on 5 November 2007 when Noël Harwerth took over the chairmanship.

Statement of Directors' responsibilities in respect of the Annual report, the Report of the Remuneration Committee and the Financial statements

The Directors are responsible for preparing the Annual report, the report of the Remuneration Committee and the Group and the Parent Company Financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company Financial statements and the report of the Remuneration Committee in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the Group Financial statements, the Directors have also elected to comply with the IFRSs, issued by the International Accounting Standards Board (IASB). The Group and Parent Company Financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group 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 the Group Financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB, and with regard to the Parent Company's Financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial statements.

The Directors confirm that they have complied with the above requirements in preparing the Financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group Financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and that the parent company's Financial statements and the report of the Remuneration Committee comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

All Directors are expected to attend the AGM to answer shareholders' questions. The Chairmen of the Audit, Remuneration and Nominations Committees are present at the AGM to answer any questions on the responsibilities and activities of their Committees. All Directors attended the 2007 AGM. To ensure the views of all shareholders are reflected proportionately, it is the Company's policy for all resolutions to be voted on a poll.



By order of the Board
P Weaver FCIS
 Company Secretary
 20 March 2008

Risk factors

Risk area	Potential impact	Mitigation actions
Dependence on recruitment and retention of suitably qualified personnel	The ability of the Group to meet the demands of the market and compete effectively with other IT suppliers is, to a large extent, dependent on the skills, experience and performance of its personnel and an appropriate balance of onshore, nearshore and offshore resources. There is a high level of demand for individuals with appropriate knowledge and experience in the IT and business services market, and an increasing dependence on smaller groups of key staff in key locations. The loss of key personnel or significant numbers of staff, or the failure to attract a sufficient number of suitably qualified and experienced personnel in our key onshore, nearshore and offshore locations, could have serious consequences on the Group's ability to service client contracts.	The Group has well-established recruitment processes and adopts a range of proven methods to maximise key staff retention. The Group also provides an infrastructure which supports the development of its personnel through a range of structured career development programmes focused on each key competency, which include succession planning as well as leadership, talent management and personal development. Our expanding corporate university is complemented by local, tailored learning and development programmes designed to meet the needs of each major business dependent on its business needs.
Responsiveness to change or disruption to our business processes, including macro level economic trends and changes in the global competitive landscape	Many markets in which the Group operates have been particularly susceptible to rapidly changing technologies, regulation, variations in market economic conditions and fluctuations in client demand. Global trends, including offshoring and the changing economic position of India and China in particular, are changing the markets in which we operate. Failure of internal systems or processes or inability to share information could lead to us being unable to meet client requirements or deliver to new opportunities. The Group needs to be able to continue to respond and adapt to these pressures whilst, in a timely and cost-efficient manner, continuing to deliver existing products and services. Failure to do so will be a risk to the Group's success.	To meet market demands, the Company's Industry Group is tasked with producing innovative solution and service propositions, essential to both stimulate new client revenue opportunities and meet existing needs. A proactive knowledge management programme across the Group, combined with collaborative competency team development, helps to ensure that technology advancement challenges are met. Systems and business continuity plans are also maintained.
Dependence on major clients and contracts	A significant part of the Group's revenue is derived from large contracts and framework agreements.	No one customer accounts for more than 3% of revenue. Whilst it is positive to generate increasing revenue by farming existing accounts and to focus on increasing business with existing customers, our account and sales management focus on maintaining a balance and on driving an element of new business with new clients.
Loss of authorisation or accreditation from vendors or disruption of key supplier relationships	A portion of the Group's revenue is dependent on continued authorisation and accreditation by certain vendors of IT software and hardware. Without such service authorisations and accreditations by these vendors, the Group may be unable to offer certain products and services. Failure to maintain these authorisations and accreditations may also result in the Group failing to fulfil certain contractual obligations. There can be no assurances that a vendor will not withdraw an authorisation or accreditation, which may result in an adverse effect on the Group's business.	Alliance management is tasked with developing engagement plans with key suppliers that link both organisations at multi management levels and across multi functions, maintaining a mutually positive and beneficial business arrangement.
Exposure to country and regional risk (political, financial, economic, social), particularly in Europe and India	As the Group operates on an international basis, it is exposed to the risk of political, financial market, economic or social unrest in the territories in which it operates. In addition, there is the potential for natural disasters and major terrorist activity, such as 9/11 in the USA and 7/7 in London. These risks are generally outside the control of the Group but could still result in the loss of services that would prejudice our ability to respond to agreed service levels or fulfil other obligations. The Group raises debt in the financial markets to fund acquisitions and working capital. The Group is therefore exposed to a degree of liquidity risk. By carrying debt on its balance sheet the Group is also exposed to interest rate risk. The Group operates in 36 countries and has revenue in a variety of different currencies.	The Group adopts a balanced business and market portfolio to endeavour to protect itself against many of these fluctuations, especially those that are restricted to individual territories and market sectors. Liquidity risk is mitigated by raising debt from a variety of sources and ensuring that the tenure of the debt is sufficient that pre-emptive action can be taken in the event of restricted liquidity in the financial markets. Interest rate risk is mitigated by carrying a portion of the debt at fixed rates of interest. The risk is further mitigated by ensuring that the overall level of debt as a proportion of earnings, and hence the level of interest expense, is within Board approved levels. Exchange rate risk of cash flows denominated in non-functional currencies is mitigated by using spot and forward foreign exchange contracts as part of an overall policy of managing foreign exchange risk.

Risk area	Potential impact	Mitigation actions
Increasing complexity and variability of client contracts	The complexity, variability and duration of solution and service contracts place risk management and control at a premium. If the Group fails to adequately assess its risks, implement the required controls or monitor its position diligently, any resulting failure to deliver the contract could adversely affect the results of the Group, its relationship with the client or its reputation.	The Group manages operational risk through the application of process underpinned by a comprehensive, well-proven quality management system detailed in Cortex. Communication, training and adoption of Cortex by all staff are essential. However, Cortex is constantly under review, and feedback from audits, lessons learnt and the capture of revised metrics leads to updates on a regular basis. A more major review is currently under way to evaluate the pros and cons of making Cortex more prescriptive in terms of development tools and methodologies, and to evaluate the benefits of further automation.
Exposure to global market sector risk*	The Group is exposed to unrest in world market sectors, such as finance, oil and gas, due to a range of factors largely outside its control.	As well as maintaining a geographical spread, the Group has a well-balanced spread of business in all the major market sectors globally and is familiar with managing more local regional shifts of focus and resource in response to country market fluctuations. However, a more macro level change in any one market could adversely affect the results of the Group.
Risks of a pandemic or accident*	There is increasing concern generally about the threat of a continental or global influenza or related virus pandemic. An incident or accident affecting a key group of staff could impact the operation of the Company, and in turn confidence in Logica's ability to deliver.	Business continuity plans are maintained in each geographic location in which the company operates. The Group has also established an approach to the pandemic threat and monitors the World Health Organisation Pandemic Alert status. An action plan has been established should the alert status increase.
Damage to the Company's brand, reputation or position in a given market	Logica enjoys a leading position in many markets and geographies based on our domain expertise, repeatable and leading edge solutions and services, our reputation for technical excellence and reliable delivery, and a significant number of longstanding clients. Failure to deliver or loss of a client may lead to damage to our brand or market perception which could have an adverse effect on the Group.	Our account and delivery management processes include both active and reactive mechanisms to ensure delivery and that management reacts to issues before damage results.
Extending the offshore delivery model from services and application management to software and application development*	The market is increasingly demanding the ability to deliver globally, exploiting the benefits of our growing global presence. The ability of the Group to deliver services and application management on a global basis from any one of a number of delivery centres and to achieve the changes necessary in a sufficiently timely manner and within normal business constraints is key to our success. This is termed the industrialisation of design and development.	The Group is focusing on and investing in global propositions, in increasing awareness of and in developing our processes (known as Cortex), in our Management Information Systems and developing our knowledge and know-how, and in introducing more prescription, efficiencies and automation where possible.
Exploiting the potential business benefits of strategic business decisions*	The Group has made a number of major acquisitions and divestments which require careful management to achieve the necessary integration and realignment and in turn the promised benefits to the business.	Integration and divestment programmes are aggressively managed by dedicated teams, and progress monitored carefully by the Board. Improvement programmes are managed at Group level ensuring rapid cross fertilisation of knowledge and capability.
Regulatory compliance risks*	Given the enlarged Group, introducing further jurisdictions and compliance regimes, the increasing breadth and complexity of compliance requirements in general and the increasing need to demonstrate compliance, the Group needs to ensure that the various compliance risks are effectively understood and managed.	Membership of our risk management and practice governance committees has been extended to include the new subsidiaries. Cortex is being implemented across the enlarged Group.

* These risk factors are in addition to those reported in the 2006 Annual report.

Report of the Remuneration Committee

Introduction

This report has been prepared by the Remuneration Committee and has been approved by the Board for submission to shareholders. Apart from a few minor exceptions, explained in the report, the Committee believes the report complies with Schedule 7A of the Companies Act 1985 and the relevant requirements of the Listing Rules of the UK Listing Authority.

The report comprises the following:

- Remuneration policy and arrangements:
 - The Remuneration Committee
 - Remuneration policy for Executives
 - Details of remuneration arrangements
 - Directors' employment contracts
 - Non-Executive Directorships
 - Former Directors
 - Non-Executive Directors
- Remuneration review: including tabular information on Directors' emoluments, share awards and defined benefit pension arrangements (certain sections of which have been audited).

Remuneration policy and arrangements

The Remuneration Committee

The Remuneration Committee is responsible to both the Board and the shareholders. The Committee's responsibilities, the key issues considered during 2007 and an overview of the principal matters that the Committee intends to review during 2008 are summarised below.

► logica.com/governance

The Committee's full terms of reference are available on the Company's website at www.logica.com/governance or from the Company Secretary

Responsibilities

- determining the overall policy for senior management remuneration
- approving the remuneration packages and conditions of employment of the Chairman, the Executive Directors, the Executive Committee members, the Company Secretary, the Head of Internal Audit, and other senior management
- approving the annual bonus targets for the senior executives
- overseeing the policy and management of the Company's employee share plans
- ensuring due consideration of corporate performance on environmental, social and corporate governance issues when setting remuneration of Executive Directors
- ensuring that the Company pays appropriately for the performance achieved

Remuneration Committee Composition and Meetings

The Committee is composed entirely of independent Non-Executive Directors:

Noël Harwerth – Chairman from 05.11.07, member from 01.01.07

Angela Knight – retiring as Non-Executive Director at 2008 AGM, Chairman until 05.11.07

Wolfhart Hauser – member from 01.01.07

George Loudon – retired 01.11.07

Helmut Mamach – retired at the 2007 AGM, 24.05.07

David Tyler – member from 05.11.07

The Committee held five scheduled and three ad hoc meetings during 2007. See page 52 for details of attendance by individual members.

The Committee takes advice, as appropriate, from Kepler Associates, the principal independent executive remuneration advisers. Kepler did not provide any other advice or services to the Group.

In addition, advice was also sought where appropriate from other sources, namely:

- Watson Wyatt Limited – advisers, actuaries and administrators to the LogicaCMG Defined Contribution Plan, advisers and actuaries to the LogicaCMG Defined Benefit Plan and investment advisers to the CMG UK Pension Scheme,
- Towers Perrin – in relation to Andy Green’s remuneration package,
- Group Chief Executive Officer (Martin Read, prior to his retirement),
- Chief Financial Officer (Seamus Keating),
- Group Human Resources Director (Nigel Perks),
- Company Secretary (Paul Weaver).

David Tyler spoke with key shareholders in advance of Andy Green’s appointment as Group Chief Executive Officer.

The Committee may invite any of the Executive Directors to attend all or part of its meetings but no individual is present when their own remuneration is being discussed.

Key issues considered in 2007

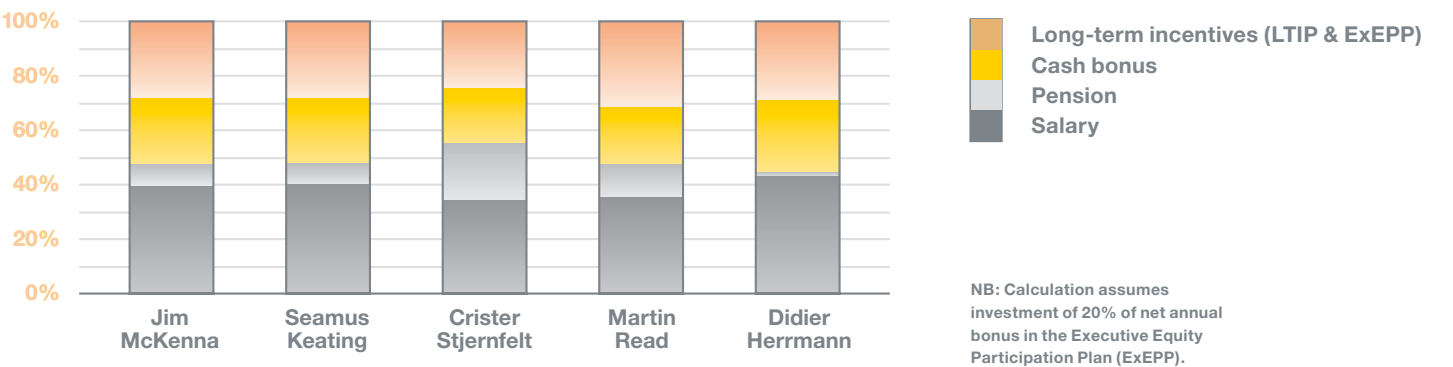
- approving the bonus targets for the Executive Bonus Plan, and assessing the performance against these criteria in determining bonus payments
- approving the operation of the Company’s long-term incentive plans, including total grant size, individual grant levels and performance conditions
- approving the remuneration package and terms of engagement for Andy Green, Chief Executive Officer
- determining incentive arrangements during the period of leadership transition
- approving leaving arrangements for departing Executive Directors
- reviewing the performance appraisals of the senior executive team
- reviewing the pension arrangements for UK-based Executive Directors
- approving amendments to the share retention policy
- reviewing and approving the 2006 Report of the Remuneration Committee to shareholders

Key issues to be considered during 2008

- reviewing the executive and employee share plans
- reviewing the performance conditions for share plans
- reviewing senior management bonus arrangements

Report of the Remuneration Committee

Logica Executive Director fair value pay mix 2007



Remuneration policy for senior executives

- It is the policy of the Committee to provide remuneration that is competitive, attracts the right calibre executives to the Group, and effectively aligns the interests of shareholders with those of the business. The remuneration policy for senior executives is set with reference to total compensation.
- The policy supports and drives a performance-oriented culture that links rewards to the performance of the individual, the business they are responsible for and the Group as a whole.
- The competitive remuneration provided to the senior executive team is commensurate with the global nature of the Group. The members of the senior executive team are based in the UK, France, Sweden and the Netherlands and in excess of 85% of the Company's employees now live and work outside the UK. Target levels of remuneration are benchmarked against similarly-sized suitable UK-listed companies and selected international sector competitors. These comparator companies were selected on the basis of size (in both financial terms and with regard to number and type of employees), complexity and international scope of operations.
- It is the policy of the Committee that Directors' contract arrangements are in line with UK governance guidelines and competitive market practice.
- The Committee regularly reviews its remuneration policy in the light of significant regulatory developments, market practice and shareholder expectations. The Committee always takes account of the overall cost of the executives' total compensation.
- Shareholders will be consulted when material changes to the policy are being considered.

Remuneration arrangements for senior executives

Key elements of remuneration

The remuneration of senior executives comprises a mix of fixed, variable, short- and long-term remuneration, which is reviewed each year by the Committee to ensure that the Directors are appropriately incentivised to achieve the Group's goals and objectives.

The chart above shows that for on target performance remuneration for Executive Directors is weighted most heavily towards the performance-related elements. At stretch levels of performance, a higher proportion of the package would be driven by performance.

The table on page 59 summarises the key elements of senior executive remuneration in 2007.

The Group operates in many different countries allowing no meaningful cross-country comparison of salaries with employees below senior executive level. The Company policy is to set remuneration levels with reference to local market conditions.

Key Elements of Executive Directors' Remuneration in 2007

Element	Objective	Policy	Award level
Total compensation	To provide competitive total compensation to executives, allowing the Company to attract and retain talented leaders	Compensation provided should be commensurate with the executive's contribution to the Company. The Committee intends to pay appropriately based on skill, experience and performance achieved by the executive	Total compensation is determined with reference to the remuneration policy for senior executives outlined on page 58
Annual base salary	Reflects an employee's market value, experience, contribution to the Group and individual performance	Reviewed annually on 1 January. Market-competitive base salaries against suitable comparator companies	Salaries are reviewed against business and personal performance, and local market conditions
Annual bonus	Incentivises executives to achieve and exceed specific short-term Group financial, strategic and personal objectives; deferred element contributes to retention	Paid in cash. Maximum reward only for overachieving targets. Requirement to invest between 20% and 50% of net annual bonus in shares for three years. A revised bonus plan is in place for 2008	Bonus awards range from 0% to a maximum of 125% of annual base salary
Long Term Incentive Plan (LTIP)	Performance share plan. Incentivises executives to achieve superior long-term performance and commitment to the goals of the Group; to align shareholder interests with executives; retention of key individuals	Share awards are made annually to senior executives, other management and high performers, and are conditional on Group performance over three years	CEO: 1.5 x annual base salary Executive Directors: 1 to 1.5 x annual base salary
Executive Equity Participation Plan (ExEPP)	Deferred bonus plan; to align interests of shareholders and executives through investing in Company shares; to encourage executives to build up a significant shareholding in the Group	Executives are required to invest part of their annual bonus in shares. In return, additional matching shares are released conditional on Group performance over three years	Senior executives and certain other senior managers are eligible. The requirement is to invest between 20% and 50% of net annual bonus in this plan. Matching award on a one-to-one gross-of-tax basis subject to performance conditions
Pension	Provides competitive retirement benefits	UK-based executives participate in the defined contribution plan. Pension for the Sweden-based Executive Director reflects pre-acquisition provisions	Employer contributions for UK-based Directors: CEO: 35% of annual base salary salary; Executive Directors: 20%
Share retention policy	Requires executives to build and maintain a significant shareholding in the Group and supports alignment with shareholder interests	The shareholding requirement for executives is expressed as a percentage of annual salary. A revised policy is in place for 2008	From 2008 increased shareholding requirements are: CEO – 200% of salary (was 100%) Executive Directors – 100% (was 75%) Executive Committee – remains at 50%

Report of the Remuneration Committee

Annual base salary

Typically salaries will be market median for an individual deemed to be fully effective in their role and who is around mid-career. Less experienced new appointees may be paid below market median whilst experienced individuals and those regarded by the Committee as particularly key to the future success of the Company may be paid a base salary of around upper quartile where appropriate. Following a review of market data and in line with the above policy, the Committee has implemented the following annual base salaries for Executive Directors from 1 January 2008:

Annual base salary

The base salaries of the Executive Directors were reviewed and the following salaries implemented effective 1 January 2008:

Name	2007	2008	% increase
Andy Green	n/a	£700,000	n/a
Jim McKenna	£455,000	£455,000	nil
Seamus Keating	£400,000	£420,000	5%
Crister Stjernfelt*	£229,460	£240,933	5%

*Salaries of SEK 3,100,000 (for 2007) and SEK 3,255,000 (for 2008) converted at a rate of 13.51.

Annual base salaries for the Executive Committee increased in the range from 0 to 5.7%.

Salary increases above inflation reflect the general level of executive pay increases in the market, and progression towards the median for executives paid below the median.

Annual bonus

The Executive Bonus Plan is designed to incentivise senior executives to achieve stretching and demanding financial, strategic and personal targets, which are approved annually by the Remuneration Committee.

In 2007 the targets, as previously, were based on Earnings Per Share (EPS[^]). EPS targets are not published as they are price-sensitive.

The diagram below shows the key elements of the 2007 bonus plan and demonstrates how the bonus amount is calculated, expressed as a percentage of annual base salary.

1 ▶	Baseline bonus % (0% to 125% – based on Group EPS performance)
	×
2 ▶	Group cash flow conversion (multiplier ranging from 0.5 to 1.3)
	×
3 ▶	Personal performance against objectives (multiplier ranging from 0.0 to 1.5)
	=
4 ▶	Total bonus % payable (capped at 125%)

The maximum bonus is 125% of annual base salary for superior performance. Since 2006, a minimum of 20% of any net annual bonus must be invested in shares through the ExEPP.

Where appropriate the Committee may exercise its discretion in determining any bonuses paid.

The EPS target for 2007 was not met and no bonuses were paid to Executive Directors, with the exception of Crister Stjernfelt who, in order to retain focus on the newly acquired business, had 70% of his bonus based on the performance of the Nordics cluster, and 30% on Group performance. He received the maximum bonus payable for Nordic's performance of 87.5% of salary, but no payment for Group performance.

For the 2008 Executive Bonus Plan, the Committee has replaced EPS with operating profit (EBITA) as the means of more closely focusing executives on fundamental aspects of the business they can influence and are responsible for.

Senior executives in charge of a business will have 60% of their baseline bonus based upon Group operating profit and cash flow conversion targets, and 40% on the operating and cash flow conversion performance of their business. The Group CEO and functional heads will have 100% of their base line bonus targeted on Group operating profit and cash flow conversion.

In addition, achievement of strategic objectives will be rewarded through a multiplier (replacing the cash flow conversion multiplier used in previous years). A personal performance multiplier will be awarded for performance against personal objectives. Both sets of objectives aim to help drive achievement of the Group's strategic goals.

Leadership Transition Incentive Arrangement

In view of the Executive Directors' key role in ensuring the Group's performance during the leadership transition, the Committee implemented an additional incentive arrangement covering the period from August 2007 to August 2008. Under this arrangement, the Executive Directors may receive a maximum payment of 75% of annual base salary. One half of this incentive was payable on achieving specified Group targets for 2007, and the other half on achieving business performance targets in the first half of 2008. The target for August to December 2007 was not achieved and therefore the first half of the incentive was not paid.

Long Term Incentive Plans

The Committee continues to consider that the use of equity-based incentives remains an important mechanism for aligning the interests of executives with those of shareholders.

Awards under the plans are normally granted after the declaration of the Group's preliminary or interim results.

The following plans are currently in place:

[^] The definition of EPS for bonus purposes in 2007 is EPS based on net profit attributable to ordinary shareholders, excluding whenever such items occur: discontinued operations, exceptional items, mark-to-market gains and losses on financial assets and financial liabilities designated at fair value through profit and loss, amortisation of intangible assets initially recognised at fair value in a business combination and tax on those items, where applicable.

[#] For the performance conditions applied to the 2006 LTIP, 2006 ExEPP, the EmEPP, the ESOP and the Unilog Management Incentive for 2007, EPS means the adjusted earnings per share based on net profit attributable to ordinary shareholders excluding exceptional items and restructuring costs related to acquisitions, mark-to-market gains and losses on convertible bonds, amortisation of intangible assets initially recognised in an acquisition at fair value.

The Long Term Incentive Plan (LTIP)

The LTIP is the primary long-term incentive arrangement for senior executives. Its main features are:

- an annual award of shares will be released after three years, provided that challenging performance targets have been achieved
- the maximum total market value of shares over which awards may be granted to any employee during any Company financial year is 200% of their annual base salary. However, the Committee's expectation is that no grants greater than 150% of annual base salary will be proposed in normal circumstances
- 50% of each award is subject to achievement of EPS[#] performance targets
- the other 50% of the award is subject to Total Shareholder Return (TSR) performance relative to peers.

For 2007, the Committee decided that EPS and relative TSR were appropriate measures of the Company's long-term performance.

These stretching three-year performance criteria also apply to the ExEPP and Executive Share Option Plan outlined on this page.

[P 69](#) See page 69 for details of conditional shares awarded and award values under the ExEPP can be found on page 69

Executive Equity Participation Plan (ExEPP)

The ExEPP allows participants to invest a minimum of 20% and up to a maximum of 50% of their after-tax annual bonus payment in Company shares. Participation is compulsory for Executive Directors and EC members but voluntary for other senior managers invited to join the plan. If they remain in the Group's employment and retain their shares for three years then, provided the performance conditions are met, the Company will match the shares on a one-to-one gross-of-tax basis.

Executive Share Option Plan (ESOP)

The Company has retained a share option plan, in particular for those circumstances where use of the LTIP may be inappropriate, for example, due to local taxation or securities regulations. No options were granted under this plan in 2007.

Awards:

- are limited to a maximum face value of four times annual salary
- may be exercised between the third and tenth anniversary of the date of the grant, or released immediately in the case of conditional shares, provided the performance condition has been met.

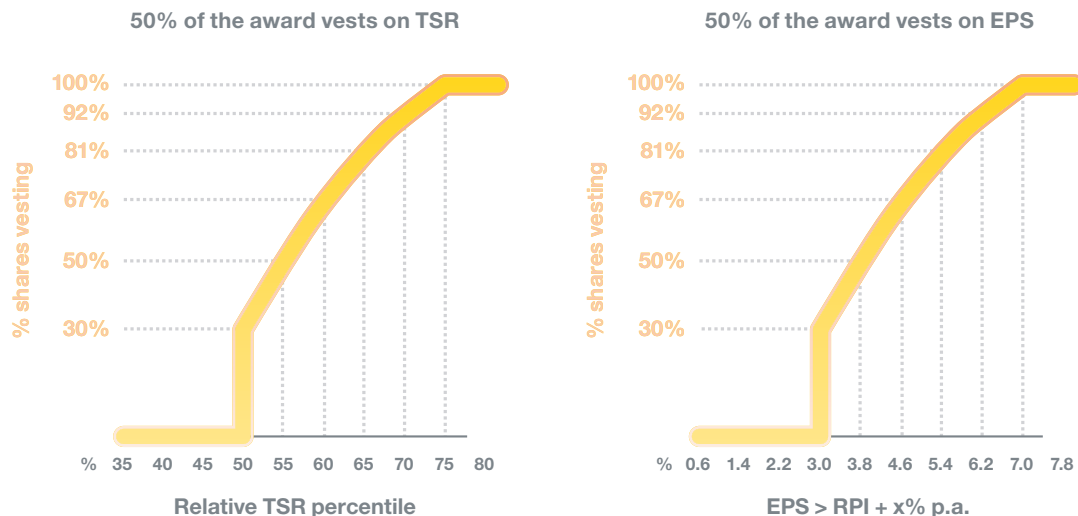
Performance conditions

The Committee sets performance conditions each time an award is made under the long-term incentive plans.

EPS[#] growth and TSR are the two performance measures currently applied to the LTIP, the ExEPP and the ESOP.

EPS[#] growth remains substantially within the control of management and therefore the Committee continues to consider it an appropriate measure of the performance and underlying financial performance of the Company.

LTIP and ExEPP Vesting Schedules



Report of the Remuneration Committee

TSR measures the return on a notional investment in a Company over a given period. TSR is determined by regard to an index measuring the growth in a Company's share price over a period, with the index assuming any dividends paid are reinvested in the Company's shares on a net basis on the ex-dividend date. TSR can be a useful measure of a Company's performance relative to that within a selected comparator Group.

The vesting schedule graphs on page 61 show how each half of an award could vest at the end of the relevant three-year performance period under the EPS and the TSR performance conditions.

The TSR comparator group for 2007 is shown below:

TSR comparator group for 2007

Atos Origin	Indra Sistemas
Capgemini	iSOFT
CGI Group	Misys
Computer Sciences Corp.	Ordina
Dassault Systems	Sage
Electronic Data Systems (EDS)	SAP
Getronics	Sopra Group
Groupe Steria	TietoEnator
IBM	Xansa

These companies were selected for strongly aligning to the Group on some or all of the following criteria: business mix, company size (primarily in terms of market capitalisation), geographic spread and TSR correlation with the Company. Following a review, the Committee has decided to add Accenture, Capita, Infosys Technologies and Unisys to the comparator group in 2008. Getronics, iSOFT and Xansa have been removed, because they are now no longer listed companies. WM-data was originally in the comparator group, until it was acquired in October 2006.

Dilution

Awards granted under the Company's Management Incentive Arrangement and the UK and International Sharesave Plans are satisfied with new issue shares. Options granted under the Executive Share Option Scheme and awards made under the LTIP may be satisfied either by shares purchased in the market by the Company's offshore employee benefit trust or by the issue of new shares. Awards made under the Executive Equity Partnership Plan, the Executive Equity Participation Plan, and the Employee Equity Partnership

Plan are always satisfied by shares purchased in the market by the Company's offshore employee benefit trusts. Awards made under the US Stock Purchase Plan are satisfied by market purchase shares only.

The table below shows the Company's current commitment to issue new shares in respect of its share plans assuming all performance conditions are met and all option and award holders remain in employment to the vesting date.

Pensions

Pension arrangements for executives reflect local practice in their base country.

UK-based executives may join the Company's Defined Contribution Pension Scheme. This is the UK's main pension fund and the only scheme available to new UK employees. Where a UK-based executive wishes to change their pension arrangements for personal tax reasons, the policy is to consider alternatives, provided they are cost neutral to the Company. Following a review of UK-based executive pension arrangements, the Committee has implemented the following revised employer contributions from 1 January 2007:

UK Employer Pension Contributions

	2006 Allowance (% of salary)	2007 Allowance for contributions to approved pension arrangements (% of salary)	2007 Allowance when pension taken as cash (% of salary)
Chief Executive Officer *	30%	35%	n/a
Executive Director	15%	20%	17.75%

* Applicable to Martin Read until his retirement on 21 September 2007. Of his total pension allowance, an amount equivalent to 25% of salary was contributed to an approved Executive Pension Plan and the remaining 10% to an Unapproved Unfunded Retirement Benefit Scheme (UURBS).

Jim McKenna receives his pension allowance as cash. The contribution of 17.75% includes a reduction for employer's National Insurance Contributions to ensure the overall cost to the Company is the same as providing pension contributions.

Seamus Keating's Company contributions were held in an Unfunded Unapproved Retirement Benefit Scheme (UURBS), whilst the most appropriate pension arrangements were being determined. During the year these were paid into the Company pension scheme

Dilution table

Share plan name	Outstanding option/ award as at 31.12.2006	% of issued share capital at 31.12.2006	Outstanding option/ award as at 31.12.2007	% of issued share capital at 31.12.2007
1996 Executive Share Option Scheme	19,066,158	1.2415%	14,549,281	0.9981%
Long Term Incentive Plan 2006	6,472,316	0.4215%	11,295,310	0.7749%
Management Incentive Arrangement	1,790,000	0.1166%	345,000	0.0237%
1995 International Sharesave Plan	4,919,458	0.3203%	2,533,226	0.1738%
2005 International Sharesave Plan	1,158,082	0.0754%	2,460,002	0.1688%
1995 UK Sharesave Plan	7,745,093	0.5043%	4,684,181	0.3214%
2005 UK Sharesave Plan	917,560	0.0597%	2,061,570	0.1414%
	42,068,667	2.7394%	37,928,570	2.6020%

Executive Directors' benefits

Name	Location	Benefit entitlement
Jim McKenna and Seamus Keating	UK	Pension, life insurance, permanent health cover, private medical insurance benefits, medical check-ups, company car and fuel (or cash allowances in lieu), an interest free travel ticket loan, personal accident insurance
Crister Stjernfelt	Sweden	Pension, life assurance, permanent health cover, company car, personal accident insurance

and employer contributions to the scheme were reinstated. The Company makes contributions of 20%, with Seamus Keating contributing 5%.

Crister Stjernfelt continues to receive the same annual pension allowance of SEK1,750,000 (£129,534) as he received in 2006, reflecting arrangements in place prior to the WM-data acquisition in 2006. This is due to expire at the end of December 2008 and will be reviewed.

Base pay is the only element of remuneration that is pensionable.

Benefits

The benefits received by the Executive Directors are detailed in the table above. Benefit entitlements are in line with normal practice in the UK and Sweden.

All-employee share plans

The Group operates two share plans to provide employees with the opportunity to acquire shares in the Company. The majority of employees globally can participate in at least one of the plans, subject to local legal and tax constraints. Executive Directors are eligible to participate in Sharesave, and may participate in the Employee Equity Partnership Plan on condition they are not participating in the ExEPP that year. US-based employees are only entitled to participate in the US Stock Purchase Plan.

During 2007 a total of 3,558,605 options were awarded under the UK and International Sharesave plans, and a total of 226,199 matching award shares under the Employee Equity Partnership Plan.

For 2008, to encourage greater participation, the Committee has decided to re-introduce a 20% discount to the market price at which employees may purchase options under the Sharesave plans and to remove the Company performance condition on the Employee Equity Partnership Plan. In addition, certain employees in France may participate in Unilog Insight (see page 135 for details of the plans).

Share retention policy

Executive Directors and Executive Committee members receiving deferred shares through the ExEPP are expected to acquire and retain a significant holding in the Company under the share retention policy.

The requirement is expressed as a percentage of annual base salary, which the Committee considers to be most appropriate measure as it is less volatile than actual remuneration, easily understood and compliance is easily measured.

In 2007, from the date of their appointment, executives must invest 50% of their net annual bonus in shares until they have achieved the Company's share ownership requirements. The obligation to invest 20% of the net annual bonus in shares through the ExEPP is regardless of shareholding.

Following a policy review, the Committee has decided to implement increased share ownership requirements from 2008 of 200% (CEO) and 100% (other Executive Directors) of annual base salary, removing the three- and five-year time limits within which to achieve a certain level of shareholding. Executive Directors will be obliged to invest 50% of any annual net bonus in shares until the Company's ownership requirements are met. It is expected that this will normally be achieved through participation in the ExEPP and LTIP. The current and new requirements for Executive Directors are set out in the table below.

At the end of 2007 the three-year shareholding requirement applicable to Jim McKenna and Seamus Keating was achieved. Crister Stjernfelt has already achieved a shareholding of 100% of annual base salary.

Share Retention Policy (percentage of annual base salary)

	2007 (after 3 years)	2007 (after 5 years)	2008 (no time limit)
CEO	50%	100%	200%
Executive Directors	30%	75%	100%

NB: Shares are valued at their purchase price or the average price over three months to 31 December (whichever is the higher).

Remuneration arrangements for Andy Green

Andy Green was appointed as the Group's Chief Executive Officer on 1 January 2008. His remuneration package is summarised below.

- Annual base salary: £700,000 per annum at date of appointment.
- Annual bonus: Participation in the Executive Bonus Plan offering a maximum bonus opportunity of 125% of annual base salary.
- LTIP: A grant of 150% of annual base salary to be awarded in April 2008.
- Pension: A cash payment equal to 30% of annual base salary.
- Benefits: Benefits are in line with those offered to all UK-based executives.
- Other arrangements: In compensation for forfeited incentives in place at his previous company, BT plc, Andy Green will receive a one-off cash payment of £231,668 (net of deductions) in March 2008. He has also received a restricted share grant of a total of 2,110,967 ordinary shares to vest over a period of four consecutive years. The number of shares that vest at each tranche will be increased by reference to dividends paid on shares between the grant date and vesting date. The shares will be released in tranches at the end of March in each of the four years and vest immediately, provided that he is employed by the Company on the vesting date.

Report of the Remuneration Committee

Remuneration arrangements for former Executive Directors

Martin Read

Martin Read served on the Board as Group Chief Executive until his retirement on 21 September 2007. No severance payments were made to him on his retirement. For the purpose of Group share plans, the Committee exercised its discretion to allow Martin Read to exercise outstanding grants under certain Group share plans (see pages 68 to 70). His other leaving arrangements, in respect of benefits and Company property, were in line with normal practice.

Until his retirement date, Martin Read was entitled to:

- A total employer contribution to retirement benefits of 35% of annual base salary, of which 25% was paid into a pension plan and the remaining 10% into an UURBS. Martin Read elected to receive the funds of £107,642 including interest accrued in the UURBS as cash on his retirement. Funds in his retirement plan continue to be managed within the plan as a deferred member.

P63 Benefits in line with those received by the other UK-based executives can be found on page 63

On retirement, Martin Read purchased his company car at market value.

The liquidated damages clause in his service contract, dated 27 July 1993, did not take effect due to his retirement. The clause stated that if the Company terminated his employment in breach of contract, he would receive an amount equal to one year's gross salary plus 30% of annual gross salary as compensation in respect of pensions, bonus and other benefits.

Martin Read received fees from a non-executive directorship with British Airways, details of which can be found in their report and accounts.

Didier Herrmann

Didier Herrmann served on the Board until 24 July 2007 when he was requested to step down. His employment, which commenced with effect from 1 October 1972, was terminated on 4 January 2008.

Two settlement agreements have been entered into with Didier Herrmann as follows:

In relation to the termination of his roles with subsidiaries of LogicaCMG plc the following sums were paid/shares transferred in December 2007/January 2008:

- Legally required termination payment of €913,693 pursuant to the applicable collective bargaining agreement,
- settlement payment of €487,859 (less standard deductions required under French law),
- redemption of 7,764 BSARs (Unilog share options) at a total sum of €17,469 in line with normal practice (see page 73 for details of the liquidity agreement and the Unilog share option arrangement),
- transfer of the remaining balance of 550,000 shares under the Management Incentive Arrangement (see page 73).

No bonus was paid in respect of 2007. Outstanding awards under the LTIP and the ExEPP lapsed on the date of termination.

Didier Herrmann purchased his company car and his laptop under terms normally applied by Unilog.

As an Executive Director and subsequently an employee of the Company, Didier Herrmann:

- participated in the mandatory AGIRC and ARRCO pension arrangements applicable in France
- received benefits in line with normal French arrangements comprising pension, life assurance, medical insurance, invalidity cover.

Executive Directors' service agreements

Executive	Effective date of appointment	Notice period	Contract details
Andy Green	1 January 2008	One year from the Company, six months from the individual	Any payment made in lieu of notice is calculated on the basis of gross salary, plus 30% pension contribution plus a contribution to the value of benefits. The contract includes a mitigation clause, requiring the executive to actively seek alternative employment during the notice period – payments will be reduced accordingly if such employment is found.
Seamus Keating	1 January 2002	One year from the Company, three months from the individual	Any payment made in lieu of notice is calculated on the basis of gross salary plus 12.5% as a contribution to the value of benefits. If the Company makes a payment in lieu of notice, his entitlement to a company car will continue as if notice had been given to him.
Jim McKenna	23 February 1998	One year from the Company, three months from the individual	Any payment made in lieu of notice is calculated on the basis of gross salary plus 12.5% as a contribution to the value of benefits. If the Company makes a payment in lieu of notice, his entitlement to a Company car will continue as if notice had been given to him.
Crister Stjernfelt ¹	10 October 2006	Six months from either party	In the event of termination of employment by the Company, 12 months severance pay is payable. If he assumes new duties during this period, the right to remaining severance pay ceases.

¹ Crister Stjernfelt's service agreement reflects the arrangements in place for him prior to the WM-data acquisition

In relation to the remaining shares blocked pursuant to the lock-up agreement signed in November 2005:

- settlement payment of €975,000 following the retention of these lock-up shares after removal from the Board and following French Court proceedings.

Executive Directors' service agreements

Executive Directors each have a service contract that continues until normal retirement age (65) unless terminated by either party.

No Executive Director's service contract includes a liquidated damages clause and no such clause will be incorporated into future contracts for Executive Directors. Other Executive Directors' and EC members' contracts do not contain any provision for compensation upon termination of employment beyond payment in lieu of contractual notice. For Andy Green and other future Executive Directors, a mitigation statement will be included in the employment contract.

Non-Executive Directorships

Executive Directors may accept a maximum of two invitations to become a Non-Executive Director or Chairman of another Company, only one of which may be a FTSE 100 Company. Such appointments can broaden their knowledge and experience to the benefit of the Company. They may normally retain fees as the posts entail personal responsibility. Jim McKenna received fees in relation to his appointment as Non-Executive Director and Non-Executive Chairman (designate) with Azzurri Communications Limited. Andy Green is a Non-Executive Director with Navtech Inc. Details of fees received can be found in the report and accounts of the relevant companies.

Former Directors

During 2007, Andrew Given, who retired on 30 December 2002, and Ian Taylor, who retired on 30 June 2004, provided limited services on a consultancy basis to certain senior executives as part of the Company's management development programmes.

Chairman and Non-Executive Directors

Non-Executive Directors do not have service contracts with the Company. They are not normally eligible to participate in performance-related bonus plans, Group share plans or Group employee benefit arrangements. They are not entitled to any payments for loss of office or any unexpired term of their appointment as a Non-Executive Director.

The Chairman's fees are determined by the Board upon the recommendation of the Committee and the Group Chief Executive Officer.

The fees of the other Non-Executive Directors are determined by the Executive Directors from recommendations from the Chairman and the Group Chief Executive Officer. The Board has the power to award additional fees to Non-Executive Directors for services outside the scope of their ordinary duties. No such additional payments were made in 2007.

A review of the fees and fee structure for the Non-Executive Directors was undertaken during the year and revised fees were implemented with effect from 1 January 2008. Fees were last increased on 1 January 2006.

The 2007 base fee included membership of one Committee.

An additional fee was only payable for membership of more than one Committee (excluding the Nominations Committee). From 2008, Non-Executive Directors will receive a base fee and additionally a fee for every Committee membership (again excluding the Nominations Committee for which no fee is payable). A Committee Chairman will only receive the base fee and Committee Chairman fee.

Under the new fee structure, part of the annual fee after tax will be delivered in shares: £10,000 (gross) for the Non-Executives and the Deputy Chairman, and £30,000 (gross) for the Chairman. The Non-Executives are encouraged to build up and retain a shareholding of one times annual fee during their tenure.

The table below shows the 2007 and 2008 fee structures.

Non-Executive Director Fee Structure £p.a.

Base fees	2007*	2008
Chairman	180,000	300,000
Deputy Chairman	83,000	88,000
Non-Executive base fee	33,000	45,000

Additional fees*

Audit Committee Chairman	10,000	15,000
Remuneration Committee Chairman	10,000	12,000
Audit Committee member	2,000	5,000
Remuneration Committee member	2,000	5,000

*Additional fees are not payable to the Chairman of the Board and the Deputy Chairman
NB: In addition and unconnected to his appointment as Non-Executive Director, Gérard Philippot also had a one year fixed term consultancy agreement with the Company at a value of €300,000 (£205,479 at an exchange rate of 1.46) which expired on 3 March 2007.

Cor Stutterheim retired as Chairman of the Board and George Loudon as Non-Executive Director on 1 November 2007.



Further details on the Non-Executive Directors can be found in the Corporate governance report on pages 44 to 53.

Report of the Remuneration Committee

Remuneration review

Directors' remuneration (this information has been audited)

	Salary and fees £'000	Performance- related bonus £'000	Termination payments £'000	Benefits in kind £'000	Total 2007 £'000	Total 2006 £'000	Pension/cash payment in lieu of pension* 2007 £'000	Pension 2006 £'000
Chairman and Executive Directors								
David Tyler ¹	54	–	–	–	54	–	–	–
Cor Stutterheim ²	150	–	–	–	150	180	–	–
Jim McKenna ³	455	–	–	36	491	960	81	100
Seamus Keating ⁴	400	–	–	16	416	863	80	56
Crister Stjernfelt ⁵	229	201	–	6	436	82	130	29
Martin Read ⁶	503	–	–	29	532	1,497	176	195
Didier Herrmann ⁷	325	–	1,640	1	1,966	610	18	15
	2,116	201	1,640	88	4,045	4,192	485	395
Non-Executive Directors								
Wim Dik	63	–	–	–	63	33	–	–
Noël Harwerth ⁸	35	–	–	–	35	–	–	–
Wolfhart Hauser ⁸	35	–	–	–	35	–	–	–
Angela Knight	42	–	–	–	42	43	–	–
Roger Payne	43	–	–	–	43	43	–	–
Gérard Philippot ⁹	67	–	–	–	67	203	–	–
George Loudon ¹⁰	29	–	–	–	29	35	–	–
Helmut Mamsch ¹¹	34	–	–	–	34	83	–	–
	348	–	–	–	348	440	–	–
Former Directors								
Andrew Given ¹²	1	–	–	–	1	–	–	–
Ian Taylor ¹³	2	–	–	–	2	4	–	–
	3	–	–	–	3	4	–	–
Total	2,467	201	1,640	88	4,396	4,636	485	395

* Save for Jim McKenna, who receives a cash payment in lieu of pension, the amounts disclosed relate to pension contributions into pension plans.

¹ Appointed as Non-Executive Chairman on 1 November 2007, joined as Deputy Chairman on 18 July 2007.

² Retired as Non-Executive Chairman on 1 November 2007.

³ Interim Chief Executive Officer from 21 September 2007 until 31 December 2007. Receives pension allowance of 17.75% of salary in cash. Amounts disclosed for 2006 reflect salary sacrifice arrangements which ended on 30 November 2006.

⁴ His pension contributions to an Unfunded Unapproved Retirement Benefit Scheme (UURBS) additionally accrued a notional investment return of 5% per annum (£2,570).

⁵ Amounts disclosed for 2006 are pro-rated from the date of his appointment of 10 October 2006.

⁶ Retired as Group Chief Executive Officer on 21 September 2007. His pension contributions to an UURBS additionally accrued a notional investment return of 5% per annum (£4,595).

⁷ Requested to step down as Executive Director on 24 July 2007, but remained an employee of the Company until 4 January 2008. His termination payments include £1,627,775 relating to severance payments paid on termination of employment and £11,965 paid for the redemption of 7,764 BSARs (Unilog share options). Amounts disclosed for 2006 are pro-rated from the date of his appointment on 10 January 2006.

⁸ Appointed as Non-Executive Director on 1 January 2007.

⁹ Received an annual fee of £33,000 in respect of his appointment as Non-Executive Director. Additionally, in 2007 he received £34,247 as a payment for the remaining two months of a one year fixed term agreement for consultancy services which expired on 3 March 2007 (see page 65). Amounts disclosed for 2006 comprise £33,000 in non-executive directorship fees and £170,000 relating to the first ten months of the one year fixed term consultancy agreement.

¹⁰ Retired as Non-Executive Director on 1 November 2007.

¹¹ Retired as Non-Executive Director at the 2007 AGM on 24 May 2007.

¹² Retired as Executive Director on 31 December 2002. Emoluments disclosed for 2007 are a payment for the provision of limited consultancy services.

¹³ Retired as Executive Director on 30 June 2004. Emoluments disclosed for 2007 and 2006 are a payment for the provision of limited consultancy services.

Pension benefit details for Cor Stutterheim (this information has been audited)

Transfer value of the change in accrued pension 31/12/06 to 31/10/07 € n/a	Change in accrued pension 31/12/06 to 31/10/07 € n/a	Accrued pension at 31/10/07 € 257,945	Accrued pension at 31/12/06 € 257,945	Change transfer value 31/12/06 to 31/10/07 € 87,998	Transfer value at 31/10/07 € 3,971,620	Transfer value at 31/12/06 € 3,883,622
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From 1 August 2006 Cor Stutterheim has elected to receive monthly pension payments at the age of 60, as permitted under the rules of the scheme.

Directors' Share Interests (this information is unaudited)

Interests of the directors at the year-end in the shares of the company were as follows:

Number of shares	1 January 2007 (or date of appointment if later)		Acquired or disposed during the year	31 December 2007 (or date of leaving if earlier)	
	Beneficial	Non- beneficial		Beneficial	Non- beneficial
David Tyler	–	–	200,000	200,000	–
Cor Stutterheim	1,209,941	–	–	1,209,941	–
Jim McKenna	106,553	–	58,115	164,668	–
Seamus Keating	63,560	–	58,115	121,675	–
Crister Stjernfelt	186,923	–	–	186,923	–
Martin Read	191,316	–	111,437	302,753	–
Didier Herrmann	7,376,495	–	(1,135,805)	6,240,690	–
Wim Dik	–	–	–	–	–
Noël Harwerth	–	–	–	–	–
Wolfhart Hauser	–	–	–	–	–
Angela Knight	2,145	–	–	2,145	–
George Loudon	3,717	–	–	3,717	–
Helmut Mamsch	–	–	–	–	–
Roger Payne	20,526	–	–	20,526	–
Gérard Philippot	8,611,532	–	(8,611,532)	–	–

The market price of the shares at 31 December 2007 was 117.25p (31 December 2006 was 186.00p) and the range during the period 1 January to 31 December 2007 was 109.5 pence to 191.5 pence.

The company's Register of Directors' Interests, which is open to inspection, contains full details of directors' shareholdings and options to subscribe for shares.

At 31 December 2007, the Logica Employee Share Ownership Plan Trust owned 5,770,907 shares. Between 1 January and 20 March 2008, the holding of the Trust reduced by 10,817 shares following the exercise of options by employees. Jim McKenna, Seamus Keating and Martin Read hold options over shares held in the trust.

Cor Stutterheim has a general interest in the 1,247,821 shares held by the CMG Stichting Pensioenfond in the Netherlands as a result of his deferred membership of this scheme.

In March 2008, six Non-Executive Directors and Andy Green and Seamus Keating purchased Company shares.

Shares were purchased by Non-Executive Directors on 3 March 2008 at a price of 89.75 pence and in respect of the new Non-Executive share fee policy as follows:

Executive Director	Number of shares
David Tyler	19,551
Wim Dik	6,509
Noël Harwerth	6,619
Wolfhart Hauser*	17,559
Roger Payne	6,509
Gérard Philippot	6,509

* Wolfhart Hauser's purchase includes an additional personal investment

Andy Green and Seamus Keating purchased shares on 5 March 2008 at a price of 93 pence as follows:

Executive Director	Number of shares
Andy Green	106,851
Seamus Keating	53,387

Jim McKenna sold 20,759 shares on 12 March 2008 at a price of 94.75 pence for tax planning purposes. He intends to repurchase shares in the next few weeks.

Report of the Remuneration Committee

Long Term Incentive Plan (this information has been audited)

Shares granted to Executive Directors under the Long Term Incentive Plan 2006 are shown in the table below. The EPS and TSR performance conditions for the plan are described on page 61.

	At 1 January 2007	Granted during the year	Released/ lapsed during the year	At 31 December 2007 (or date of leaving if earlier)	Grant date	Release date
Jim McKenna	257,485	–	–	257,485	25/05/06	25/05/09
		234,652	–	234,652	10/04/07	10/04/10
	257,485	234,652	–	492,137		
Seamus Keating	224,550	–	–	224,550	25/05/06	25/05/09
		204,638	–	204,638	10/04/07	10/04/10
	224,550	204,638	–	429,188		
Crister Stjernfelt	204,488	–	–	204,488	01/11/06	01/11/09
		123,121	–	123,121	10/04/07	10/04/10
	204,488	123,121	–	327,609		
Martin Read	583,832	–	(324,360)	259,472	25/05/06	25/05/09
		532,060	(458,165)	73,895	10/04/07	10/04/10
	583,832	532,060	(782,525)	333,367		
Didier Herrmann	164,055	–	(164,055)	–	25/05/06	25/05/09
		149,508	(149,508)	–	10/04/07	10/04/10
	164,055	149,508	(313,563)	–		

Executive Equity Participation Plan

Shares purchased through the Executive Equity Participation Plan 2006 and its predecessor, the Executive Equity Partnership Plan 1998, and the Company matching awards are shown in the tables below. Shares acquired by the Executive Directors during the year are also shown in the Directors' share interests table on page 67.

Shares purchased by the Executive Directors under the ExEPP (this information has been audited)

		Shares purchased under the plan as at 1 January 2007	Shares acquired during the year	Shares purchased under the plan as at 31 December 2007 (or date of leaving if earlier)
Jim McKenna	19 November 1988	7,680	–	7,680
	7 April 2006	22,938	–	22,938
	8 March 2007		58,115	58,115
		30,618	58,115	88,733
Seamus Keating	8 April 2004	9,548	–	9,548
	7 April 2006	45,877	–	45,877
	8 March 2007		58,115	58,115
		55,425	58,115	113,540
Crister Stjernfelt	8 March 2007	–	–	–
		–	–	–
Martin Read ¹	8 April 2004	14,746	–	–
	7 April 2006	20,921	–	–
	8 March 2007		111,437	–
		35,667	111,437	147,104
Didier Herrmann ²	8 March 2007	–	19,195	19,195
		0	19,195	19,195

¹ Following his retirement, the committee decided to allow Martin Read to exercise the one outstanding award granted in 2006 under the Executive Equity Partnership Plan within 12 months from the date of his retirement without the performance condition applying. These awards were exercised and sold on 5 September 2007 at a price of 164.75 pence, realising a gain of £46,390.31. For the one outstanding award granted in 2007 under the Executive Equity Participation Plan, the awards will be released to him upon maturity subject to the achievement of the performance conditions and shares being pro-rated on a time basis.

² Didier Herrmann's award lapsed on leaving the Company.

Report of the Remuneration Committee

Matching shares awarded to the Executive Directors under the ExEPP (this information has been audited)

	Award date	Performance period end	Matching shares held at 1 January 2007	Matching shares awarded during the year	Exercised/ lapsed during the year	Matching shares held at 31 December 2007
Jim McKenna	19 November 1998	2001	15,362	–	–	15,362
	7 April 2006	2009	39,116	–	–	39,116
	8 March 2007	2010	0	99,197	–	99,197
			54,478	99,197	–	153,675
Seamus Keating	8 April 2004	2007	18,231	–	–	18,231
	7 April 2006	2009	78,226	–	–	78,226
	8 March 2007	2010	0	99,197	–	99,197
			96,457	99,197	–	195,654
Crister Stjernfelt	8 March 2007	2010	–	–	–	–
			–	–	–	–
Martin Read ¹	8 April 2004	2007	28,158	–	(28,158)	–
	7 April 2006	2009	35,672	–	(17,852)	17,820
	8 March 2007	2010	–	190,201	(158,503)	31,698
			63,830	190,201	(204,513)	49,518
Didier Herrmann ²	8 March 2007	2010	–	38,661	(38,661)	–
			–	38,661	(38,661)	–

Subject to certain conditions being satisfied, the conditional award of shares shall be transferred to the participant on or as soon as reasonably practicable after the vesting date.

¹ Following his retirement, the committee decided to allow Martin Read to exercise the one outstanding award granted in 2006 under the Executive Equity Partnership Plan within 12 months from the date of his retirement without the performance condition applying. These awards were exercised and sold on 5 September 2007 at a price of 164.75 pence, realising a gain of £46,390.31. For the one outstanding award granted in 2007 under the Executive Equity Participation Plan, the awards will be released to him upon maturity subject to the achievement of the performance conditions and shares being pro-rated on a time basis.

² Didier Herrmann's award lapsed on leaving the Company.

Directors' Share Options (this information has been audited)

Options to subscribe for ordinary shares of the Company held by Directors are as follows:

	Options held at 1 January 2007 (or date of appointment if later)	Options granted during the year	Options exercised during the year	Lapsed/ cancelled during the year	Options held at 31 December 2007	Grant date	Exercise price (pence) adjusted for the rights issue ¹	Exercise dates	
								Earliest	Latest
J McKenna ²	118,996	–	(118,996)	–	–	14/10/97	155.97	14/10/00	13/10/07
	118,996	–	–	–	118,996	17/09/98	329.08	17/09/01	16/09/08
	148,745	–	–	–	148,745	14/09/99	689.09	14/09/02	13/09/09
	66,417	–	–	–	66,417	17/10/00	1,626.08	17/10/03	16/10/10
	1,844	–	–	–	1,844	17/10/00	1,626.08	17/10/03	16/10/10
	113,770	–	–	–	113,770	13/09/01	598.57	13/09/04	12/09/11
	341,310	–	–	–	341,310	24/09/02	107.23	24/09/05	23/09/12
	341,310	–	–	–	341,310	23/09/03	238.20	23/09/06	22/09/13
	341,310	–	–	–	341,310	07/04/05	159.09	07/04/08	06/04/12
	4,850	–	–	–	4,850	07/04/06	192.75	01/05/09	01/11/09
	1,597,548	–	(118,996)	–	1,478,552				
S Keating	23,797	–	–	–	23,797	14/09/99	689.09	14/09/02	13/09/09
	17,065	–	–	–	17,065	17/10/00	1,626.08	17/10/03	16/10/10
	22,754	–	–	–	22,754	13/09/01	598.57	13/09/04	12/09/11
	341,310	–	–	–	341,310	24/09/02	107.23	24/09/05	23/09/12
	341,310	–	–	–	341,310	23/09/03	238.20	23/09/06	22/09/13
	341,310	–	–	–	341,310	07/04/05	159.09	07/04/08	06/04/12
	1,087,546	–	–	–	1,087,546				
C Stjernfelt	–	–	–	–	–				
M Read ³	892,474	–	–	–	892,474	17/09/98	329.08	17/09/01	16/09/08
	297,491	–	–	–	297,491	14/09/99	698.09	14/09/02	13/09/09
	111,925	–	–	–	111,925	17/10/00	1,626.08	17/10/03	16/10/10
	1,844	–	–	–	1,844	17/10/00	1,626.08	17/10/03	16/10/10
	170,655	–	–	–	170,655	13/09/01	598.57	13/09/04	12/09/11
	739,505	–	(739,505)	–	–	24/09/02	107.23	24/09/05	23/09/12
	682,620	–	–	–	682,620	23/09/03	238.20	23/09/06	22/09/13
	3,105	–	–	(3,105)	–	24/09/03	238.20	01/12/06	31/05/07
	802	–	–	(802)	–	30/03/04	234.68	01/05/07	31/10/07
	682,620	–	–	–	682,620	07/04/05	159.09	07/04/08	07/10/08
	–	5,156	–	(5,156)	–	10/04/07	183.25	01/05/10	30/10/10
	3,583,041	5,156	(739,505)	(9,063)	2,839,629				
D Herrmann	–	–	–	–	–				
Total	6,268,135	5,156	(858,501)	(9,063)	5,405,727				

¹ Options and awards granted pursuant to the Group's share plans were adjusted on 9 October 2005, following the Company's rights issue in accordance with the option/award number ratio of 1.13770 and the option price of 0.87896. The adjustment factors were approved by the relevant tax authorities in the UK and the Company's auditors.

² On 17 April 2007 Jim McKenna exercised 118,996 options, at the price of 155.97 pence, awarded to him on 14 October 1997 under the Company's Executive Share Option Scheme. He realised a gain of £30,897.31 on the exercise of his options.

³ Following his retirement, the committee decided to allow Martin Read to exercise option grants up to September 2003 in the six months following the date of leaving, and to exercise options granted in April 2005 in the 42 months following the date of leaving.

Report of the Remuneration Committee

Performance conditions (this information has been audited)

The performance conditions applying to grants under the Executive Equity Partnership Plan since 1998 are set out below.

The different performance condition applying to the Executive Equity Participation Plan 2006 and the LTIP 2006 is provided on page 61.

		Percentage of shares that vest
1998 and 1999		
EPS growth in each year of relevant 3-year period in excess of growth in UK RPI	Growth in UK RPI + 7%	100%
	Growth in UK RPI + 5%	20%
	Less than growth in UK RPI + 5%	0%
	Awards may vest on a sliding scale between 20% and 100% provided EPS growth exceeded growth in UK RPI by 5% in each year	
2000 and 2001		
EPS growth in each year of relevant 3-year period in excess of growth in UK RPI	Growth in UK RPI + 12%	100%
	Growth in UK RPI + 5%	20%
	Less than growth in UK RPI + 5%	0%
	Awards may vest on a sliding scale between 20% and 100% provided EPS growth exceeded growth in UK RPI by 5% in each year	
2002 and 2004		
Average EPS growth per annum in excess of growth in UK RPI	Growth in UK RPI + 7%	100%
	Growth in UK RPI + 3%	20%
	Less than growth in UK RPI + 3%	0%
	Awards may vest on a sliding scale between 20% and 100% provided average EPS growth exceeded growth in UK RPI by 3%	

The performance condition for the award granted in 1998 was fully satisfied. The minimum performance conditions for the matching awards granted in 1999, 2000, 2001 and 2002 were not satisfied and therefore failed to vest. The performance conditions for the matching awards granted in 2004 and 2005 were fully satisfied.

Performance conditions applying to share option grants since 1996 are set out below:

Date of grant	Average EPS growth in excess of growth in UK RPI	Percentage of shares that vest
1996, 1997, 1998 and March and June 1999	Growth in UK RPI + 7%	100%
September 1999, 2000, 2001 and March 2002	Growth in UK RPI + 12%	100%
September 2002, March and September 2003,	Growth in UK RPI + 7%	100%
March and September 2004 and April,	Growth in UK RPI + 3%	20%
May and September 2005	Less than growth in UK RPI + 3%	0%
	Awards may vest on a straight line basis between 100% and 20% provided average EPS growth exceeded growth in UK RPI by 3%	

Retesting in the event a performance condition is not achieved on maturity of the option applies as follows:

Date of grant	Retesting
March and September 2003	Subject to retesting on a maximum of two occasions
March and September 2004	Subject to retesting on one occasion only, namely the fourth anniversary of the date of grant with the retesting period starting from the date of grant of the option
April, May and September 2005	Not subject to retesting

The performance conditions for share options awarded in 1996, 1997, 1998 and March and June 1999 have been met. The performance conditions for share options granted in September 1999, March, October and December 2000, February and September 2001, and March 2002 have not yet been met. The performance conditions for share options granted in September 2002, March and September 2003, March and September 2004, and April, May and September 2005, have been met. The achievement of the performance condition of an Executive Share option is dependant upon the percentage growth in the Company's eps, adjusted for share plans, when compared to the percentage growth in the United Kingdom's Retail Price Index (all indices). For the full award to be realised the percentage growth must be equal to or more than the percentage target detailed at the time of the grant of options.

Management Incentive Arrangement (this information has been audited)

Didier Herrmann was awarded a total of 1,100,000 shares over a two-year period under the Management Incentive Arrangement, which was put in place following the Unilog acquisition. The two performance conditions, one relating to EPS performance in 2006 (reported in the 2006 Annual report and accounts) and one relating to EPS performance in 2006 and 2007, were achieved in full. The first tranche of 550,000 shares was released on 14 June 2007, the second tranche of 550,000 shares was released on 24 December 2007. The performance condition for the second tranche (which has not been audited) is described below.

EPS growth 1 January 2006 to 31 December 2007	Percentage of shares to vest
Growth in UK RPI + 14%	100%
Growth in UK RPI + 6%	20%
Growth less than UK RPI + 6%	0%

Awards may vest on a straight line basis between 100% and 20% provided average EPS growth exceeded growth in UK RPI by 6%

Unilog share options exercisable under a liquidity agreement for Didier Herrmann

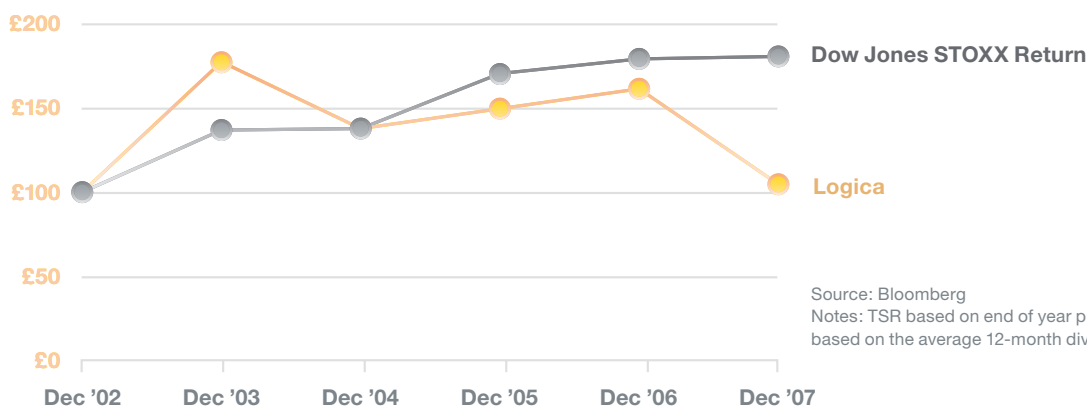
	Options held at 1 January 2007	Options granted during the year	(Lapsed)/ cancelled during the year	Options held at 31 December 2007	Grant date	Exercise price €	Exercise dates	
							Earliest	Latest
Didier Herrmann ¹	2,400 ^(a)	–	(2,400)	–	13/01/04	46.0000	02/01/09	30/04/09
	7,764 ^(b)	–	(7,764)	–	01/06/05	2.2500	29/06/10	29/06/12
	10,164	–	(10,164)	–				

¹ Following the acquisition of Unilog on 13 January 2006, the Company entered into liquidity agreements with the majority of the option holders in Unilog. Under the liquidity agreement, outstanding options in Unilog will, upon exercise, be converted into shares in the Company, using a transfer ratio of 31.97 Company plc shares for every one Unilog share.

^(a) Unilog options: equivalent number of Company shares if exercised under a Liquidity Agreement = 30,691

^(b) Unilog BSAR warrants: equivalent number of Company shares if exercised under a Liquidity Agreement = 248,215

Total shareholder return – value of hypothetical £100 holding (this information is unaudited)



Source: Bloomberg

Notes: TSR based on end of year prices. DJS Technology dividends based on the average 12-month dividend yield of constituents

The Committee believes the Dow Jones STOXX Return Index is the most appropriate index against which TSR should be measured, as it is a pan-European index consisting of companies in similar markets and geographic locations to Logica. A number of companies in this index are included in our TSR comparator group, such as Atos Origin, Capgemini, Dassault Systems, Indra Sistemas, Misys and Sage.

Noël Harwerth

Noël Harwerth

Chairman, Remuneration Committee

20 March 2008

Group key performance indicators 2007

Title	Definition	Rationale
Balanced business profile with four significant European profit generators	Percentage of Group adjusted operating profit attributable to each of our major European profit centres (UK, the Netherlands, France and the Nordics). A major profit centre is deemed significant when it exceeds 15% of adjusted operating profit.	Strengthening our position in Europe means that we have now four significant profit generators. A balanced business in which each of the four profit generators account for at least 15% of the Group's adjusted operating profit, ensures less risk associated with negative developments in any single market.
Balanced market sector profile	Revenue for each market sector within IT and business services (Financial Services, Energy and Utilities, Telecoms and Media, Industry, Distribution and Transport (IDT), Public Sector) as a percentage of Group IT and business services revenue.	A balanced market sector profile (with no sector accounting for less than 10% or more than 30%) ensures that Group revenue is less susceptible in any one segment. It also ensures profit is less volatile, by ensuring that a sufficient level of revenue is delivered from continued investment in domain expertise.
Book-to-bill	Orders booked in a period divided by revenues in the period. Book-to-bill is currently reported for the UK, NL, and International businesses as we harmonise the reporting of orders in the acquired businesses.	Provides visibility of future revenue. A book-to-bill above one means that the Company continues to build good order pipeline for future delivery.
Organic revenue growth in IT and business services	Percentage growth in IT and business services revenue in the current year compared to revenues on a like-for-like basis in the previous year, for example, taking into account the impact of acquisitions, divestments and currency movements.	Provides a measure of our ability to grow revenue within IT and business services. This demonstrates our ability to take advantage of market growth, to use scale to generate market share and to leverage our global delivery capability to expand revenue despite price deflation caused by increased competition from offshore players in some of our geographies.
Percentage of revenue from outsourcing	Revenue from outsourcing contracts as a percentage of Group revenue.	IT outsourcing (including applications management) and business process outsourcing are predicted to be the fastest growing segments within IT professional services in Western Europe from 2007 to 2010, with compound annual growth rates of 8.0% and 9.3% respectively (source: Gartner). Longer term value-added outsourcing contracts represent a more predictable revenue stream, assuming good project and risk management.



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Our performance against these KPIs is set out on page 29

(KPIs)

Title	Definition	Rationale
Adjusted operating margin	Adjusted operating profit as a percentage of revenue. Adjusted operating profit is operating profit excluding the results of discontinued operations, exceptional items and amortisation of intangible assets initially recognised at fair value in a business combination, whenever such items occur.	This measure is used to compare quality of earnings with those of our peers and to determine performance against our medium-term strategic objectives of delivering adjusted operating margin of greater than 10% in our major geographies (UK, the Netherlands, France, and the Nordics).
Adjusted earnings per share (EPS)	Net earnings attributable to equity holders of the parent Company excluding, whenever such items occur, the result of discontinued operations, exceptional items, mark-to-market gains and losses on financial assets and financial liabilities designated at fair value through profit or loss, and amortisation of intangible assets initially recognised at fair value in a business combination, net of tax where applicable, divided by the weighted average number of shares outstanding in the period.	Directors' annual bonuses, LTIP and the Executive Equity Participation Plan are linked to EPS, which serves as a measure of profitability in the business. EPS growth over the relevant three-year performance period is expected to exceed growth in the UK Retail Price Index by at least 3% per annum for ExEPP and LTIP bonus is only for one year.
Cash conversion	The net cash inflow from trading operations divided by adjusted operating profit (see adjusted operating margin KPI).	A measure of the ability to generate cash from operations. The ability to convert profit to cash is based on an internal discipline of focus on cash and the strength of the internal collections mechanism, and is a proxy for strength of relationships with customers.
Employee attrition	Annualised voluntary attrition measured by number of voluntary leavers as a percentage of the total employee population. There will always be a natural level of voluntary attrition due to people retiring, decisions to change careers and a competitive marketplace.	Retention of employees, alongside ongoing training and development, allows us to ensure that we are maintaining and upgrading the domain expertise which is a key differentiator for Logica. It is also a measure of our managers' ability to retain their employees in a market where there is significant movement of employees, particularly when the market is buoyant.
Employee satisfaction	A weighted mean score for key questions in the annual Logica employee survey. Following the acquisition of Unilog and WM-data, we are refining our employee satisfaction survey to ensure consistency across the Group. We will report on this measure in 2008.	Assuming the response rate remains unchanged, the weighted mean score is a measure of overall staff 'engagement' with Logica and the change in satisfaction from year to year.



Responsibility

In this section:

78 Corporate responsibility report

Corporate responsibility report

What does Corporate responsibility mean to Logica?

Acting responsibly as a business is not an optional extra. It is the starting point for everything we do.

We deliver IT and business services that bring real benefits. Many of our innovative services and solutions make a positive contribution to people and the environment. We help emergency services to respond faster; we improve road, rail and air traffic control systems; and we develop emissions management and trading systems.

We also recognise that our activities may have some negative consequences. Increasingly, our key stakeholders – shareholders, customers, our people and our partners – expect us to operate our business in a way that is economically, socially and environmentally sustainable. Meeting those expectations helps us to function successfully as a business, better able to attract high calibre people, retain key contracts and take on new challenges.

This is the context for the review of our Corporate Responsibility (CR) policies and practices undertaken in 2007. Its findings and conclusions are summarised below.

We are now delivering detailed programmes in the light of these findings. I welcome this, not least because I strongly believe that responsible companies are simply better at attracting and retaining the best people, winning new business and successfully growing their businesses. I look forward to providing you with an update on our progress in next year's Annual report.



Andy Green
Chief Executive Officer

► logica.com/CR

This is an excerpt of our full CR policy report, which can be found on our website at www.logica.com/CR

► Our approach to Corporate responsibility

In 2007 we reviewed our approach to CR to ensure we were concentrating on those things that really matter to our key stakeholders. We are creating a common CR framework across the Group and identifying the right CR priorities for our organisation.

Our initial CR objectives include:

- having a motivated, engaged, high calibre workforce
- having a strong reputation in corporate citizenship that marks us as a partner of choice for customers and suppliers.

To achieve these objectives we are focusing on three priority areas:

- respecting the environment
- making a positive difference to the community
- making Logica a great place to work.

A Group-wide committee, chaired by Chief Marketing Officer, Nick Caplan, on behalf of the Executive Committee, coordinates CR activities throughout the organisation and measures our progress.

Priority 1: Respect for the Environment

Our objective

We aim to operate an environmentally sustainable business. We seek to minimise energy use and carbon emissions.

In our own operations, we are improving our ability to measure our direct and indirect impact on the environment. In 2007 total Group carbon emissions were approximately 108,700 tonnes of carbon dioxide equivalent (t CO₂e)¹. We have identified our key environmental contributors as being:

- Energy use from
 - office equipment and lighting
 - building heating and cooling
 - data centre equipment
- Waste/consumption
 - as generated from normal office activities
 - from IT and office equipment upgrades
 - from catering facilities on site
 - from amenities
- Business travel and deliveries
- Refrigerant and coolant gases

¹ Estimate. Data extrapolated from locations totalling around 70% of operations by employee numbers across the Group. These have been converted to carbon emissions using emissions factors in line with the methods detailed by the Carbon Disclosure Project (www.cdp.net)

Our approach

Logica's environmental management capabilities help other businesses to reduce their carbon emissions, but we need to do more to enhance the sustainability of our own operations.

A Group-wide environment steering group was established in 2007. It has developed a common framework and set of objectives based on the three Rs: reduce, re-use and recycle. Early priorities include:

● Reduce

- using targeted communications to encourage reduced energy use at work and at home
- ensuring that unused facilities are powered down outside working hours
- encouraging conferencing technology, thereby reducing business travel
- upgrading office equipment to fewer and more energy-efficient devices
- printing initiatives, including double-sided printing as standard, reduced toner use and 'follow-me' printing
- switching to more sustainable sources of electricity

● Re-use

- replacing, where possible, disposable items with re-useable items: for example, plates and cutlery in staff restaurants
- repurposing legacy office equipment and IT assets
- sharing servers and processing capacity in data centres

● Recycle

- improving recycling facilities

Stamp down your carbon footprint campaign

In 2006, we initiated an environmental campaign, "Stamp down our Carbon Footprint" in our UK business, which followed the three Rs (as set out above). We intensified our activity in 2007 with good results.

The programme reduced carbon emissions by 10%², avoided 14,800 tonnes of CO₂ by switching to greener electricity suppliers and saved 1,630 tonnes of CO₂ by turning off unused equipment. Teleconferencing rose by more than 50% and business travel fell substantially. Paper usage was down by 12% and printing-related energy consumption was cut by 11%.

How we will measure success: Respect for the Environment

Key objective	Current status	Key initiatives underway	Priorities for 2008
Ensure Group measurement capability of emissions (total emissions and per capita)	Around 70% of our staff work in countries where we measure our CO ₂ emissions Average of 2.9 tonnes of CO ₂ emissions per capita	UK pilot of an end-to-end carbon and energy management system planned Programme underway to instil emissions measurement in every territory	Roll-out carbon and energy management in key territories Define Group CO ₂ emissions reduction targets for 2009
Improve environmental awareness amongst employees	81% of UK employees are aware of the "Stamp down your carbon footprint" programme (staff survey)	Employee environmental awareness programmes in the UK, France, India and Sweden Work underway to introduce similar programmes in other key territories	Implement Group-wide environmental awareness programme Measure awareness of environmental programme in 2008 via staff survey
Increase recycling activities and decrease paper consumption	48% of our staff work in countries where we have active recycling programmes	Ensure Group-wide compliance with WEEE directive	Promote recycling programmes across the Group

Priority 2: Making a positive difference to the community

Our objective

As an organisation that employs 39,000 people in 36 countries, Logica believes that being active in the wider community is essential to our CR programme. We also recognise that many professional people seek employers with an active social policy.

Our approach

Given Logica's role in the knowledge economy, we focus on educational programmes, particularly those targeted at young people. We support projects that actively involve our employees and, where possible, make use of their expertise. We also encourage our employees to raise money for causes that support our community policy.

In 2007 we established a Group-wide community steering committee. We have agreed to loosely align our community programmes around the principles set out in our pilot project, the Bloom programme.

² Based on latest updated DEFRA emission factors and guidelines (www.defra.gov.uk/environment/business/envrp/pdf/conversion-factors.pdf)

Corporate responsibility report

The Bloom programme is a Dutch community initiative which began in 2005. Our people use their technical knowledge to educate underprivileged people and train non-governmental organisations (NGOs), both locally and in developing countries. They have delivered computer infrastructure to educational foundations and taught computer skills to disadvantaged children.

The work we are doing with Planete Urgence shows how Bloom programme principles can be applied in other territories. Logica employees have supported a variety of community projects: bringing IT training to Benin and implementing accounting systems in Cameroon.

In the UK Logica's Prompt Payment Scheme has so far raised over £135,000 for two major children's charities, the National Society for the Prevention of Cruelty to Children (NSPCC) and Children First.

The scheme which was established in 2006, involves a proportion of the receipts received from all our clients who signed up to our prompt payment plan being donated to these charities.

How we will measure success: Making a positive difference to the community

Key objective	Current status	Key initiatives underway	Priorities for 2008
Develop a comprehensive Group-wide approach to making a positive contribution to the community	Community steering group is evaluating activities across the Group and identifying Group objectives	Roll out Bloom programme concept in the key participating countries	Align our community activities across the Group to ensure they support the Group community objective
Build employee awareness and engagement among our stakeholders	Awareness and engagement varies across geographies	Group programme is being developed to launch a number of community programmes	Ensure effective communications to promote local initiatives across the Group.
Effective measurement of our contribution to the community	Measurement criteria established in the Netherlands	Country teams to develop local community rollout plans as appropriate	Establish country specific measurement criteria for community contribution

Priority 3: Making Logica a great place to work

Our objective

We recognise that the quality of our services depends on the expertise and dedication of our employees and we want to attract talented and ambitious people who can grow our business. We want Logica to be a great place to work.

Our approach

We are committed to:

- 1 Attracting, developing and retaining the best people
- 2 Engaging and communicating with our people
- 3 Creating a supportive working environment

In early 2008 we consulted widely among our employees to identify common values which support our new Logica brand. The resulting values – committed, innovative and open – reflect our strengths as a business today and our aspirations for how we want to be in the future.

► logica.com/values

To learn more about our values please visit our website at: www.logica.com/values

Attracting, developing and retaining the best people

If we are to succeed as a Group we need to provide employees with the right tools and support to perform their roles to the best of their ability.

The Logica global career framework 'Pathways' and our Performance Management System (PMS) provide a solid structure for individual career progression. The Logica University was launched at the end of 2006 as the umbrella for our employee development programme. We are nurturing the senior managers of the future through Leadership Development programmes at Group and country level.

Key statistics

- Total number of employees over 5 year period:

2003	2004	2005	2006	2007
19,749	19,695	21,340	40,483	38,740 ³

- Overall employee retention: **84%** (unchanged from previous year)

³ Reduced headcount in 2007 as a result of disposals of Telecoms Products and Caran

Engaging and communicating with our people

Logica promotes an interactive, informative and constructive approach to employee communications. We value, encourage and react to employee feedback. We keep employees informed through a range of channels, from a CEO blog to Group-wide and country-specific magazines and newsletters.

Each year we run a global online employee satisfaction survey in multiple languages to gather feedback and identify areas of improvement. The Board and Executive Committee review the results and local action plans are drawn up in response.

The Pulse Programme

The Pulse Programme was launched in France in 2007 to speed up the integration of Logica and Unilog. Its aim was to engage all French employees in our vision to be an international player, a key partner for our clients, and the best employer in the industry. In 2007 Logica in France came fifth in an industry "Great Place to Work" survey in the Journal du Net magazine.

Employee engagement

70%

Staff survey response rate
(2006: 64%)⁴

Employee satisfaction

3.44

Overall staff satisfaction – Group mean score out of 5 for a basket of 9 questions
(2006: 3.33)

⁴ Excluding Finland, Poland and Estonia which did not participate in the 2007 staff survey

Creating a supportive working environment

A supportive workplace is an important part of creating a high-performance organisation and we aim to help our employees balance their work, family and community responsibilities.

It is Logica's policy that everyone should have an equal opportunity for employment and advancement on the basis of ability, necessary qualifications and fitness for work. We support and respect the protection of internationally proclaimed human rights.

In early 2008 we signed up to the UN Global Compact, which formally aligns the business with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption.

How we will measure success: Making Logica a great place to work

Key objective	Current status	Key initiatives underway	Priorities for 2008
Build employee confidence and engagement in the new Logica brand	Employee brand measures in 2007 staff survey: 68% work by the Company values 32% believe we are a better employer 34% believe we work successfully as a global Company	Employee brand project underway to embed the new Logica values into the organisation	Employee brand targets for 2008 staff survey: 75% work by the Company values 40% believe we are a better employer 45% believe we work successfully as a global Company
Increase overall staff satisfaction	70% responded to staff satisfaction survey (64% in 2006) Mean satisfaction score: 3.44 (3.33 in 2006)	Improving internal communications, including CEO blog and mailbox, corporate newsletters and employee video messages Strengthening engagement with leadership team through more effective communications, such as the monthly CEO call and Knowledge Forums	Increase survey response rate to 75% Raise mean satisfaction score to 3.55 Improve 2008 retention rate by 2%
Improve satisfaction with learning and development opportunities	46% are satisfied with training and development opportunities	Roll-out of Logica University Increasing support for leadership development	Increase employee satisfaction with training and development to 55%
Reduce Group-wide voluntary attrition	16% Group attrition (16% in 2006)	Reviewing incentive schemes to ensure these remain competitive	Reduce Group-wide voluntary attrition by 2%



Financial statements

In this section:

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Our markets by geography

Our leading presence in Europe means that we are close to our customers. Our balanced geographic profile insulates the business against adverse conditions in individual markets.

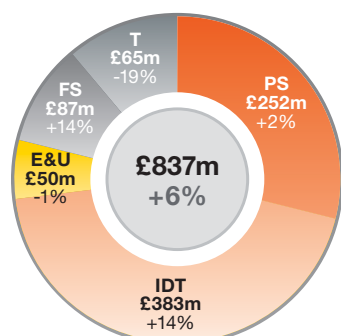
Logica is a leading European IT and business services supplier with strong positions in the Nordics, the United Kingdom, France, the Netherlands and Portugal. We also have a sizeable operation in Germany and in a number of countries within the International business.

Different cultures have different ways of approaching complex business problems. Our customer intimacy and distinctly

European approach mean that we are well placed to work in partnership with our customers, tailoring our services and solutions to their unique local requirements.

In 2007, each of our four main geographies contributed between 20% and 30% of Group revenue. This balanced profile enhances the Group's resilience to Europe's economic cycles.

Nordics



9.2%

Adjusted operating margin

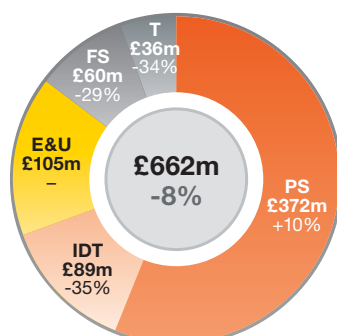


9,400
Employees (inc. Estonia)

Operational highlight of 2007

Integration cost savings of £5 million achieved

UK



4.6%

Adjusted operating margin

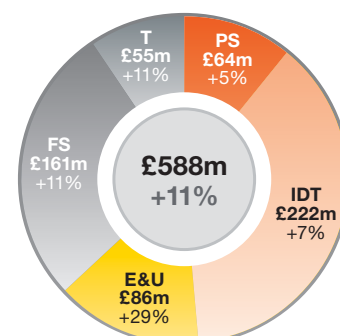


5,600
Employees

Operational highlight of 2007

Public Sector revenue up 10%

France



6.9%

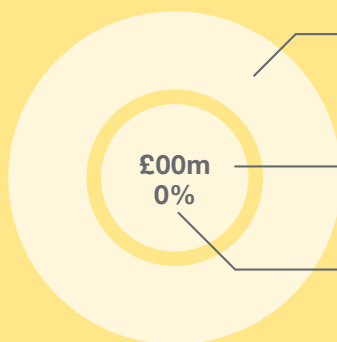
Adjusted operating margin



9,100
Employees

Operational highlight of 2007

Revenue growth across all sectors, with Energy and Utilities very strong



Revenue split by industry (rounded to nearest million) and pro forma growth

Total revenue (rounded to nearest million)

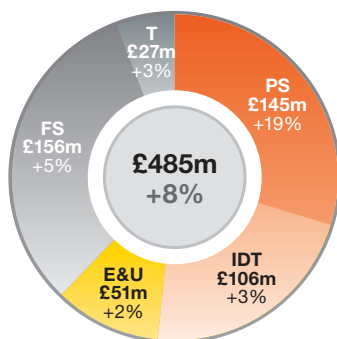
Percentage revenue growth (pro forma) rounded to nearest decimal point

PS Public Sector
IDT Industry, Distribution and Transport
E&U Energy and Utilities
FS Financial Services
T Telecoms and Media



Employee figures are rounded and include Outsourcing Services

Netherlands



8.9%

Adjusted operating margin

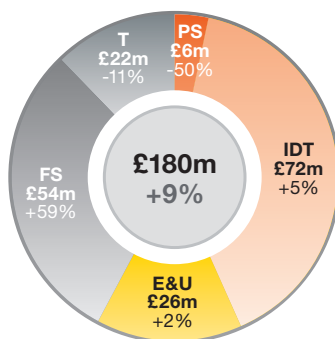


6,000
Employees

Operational highlight of 2007

£40 million deal to outsource KPN's HR Shared Services Centre

Germany



4.5%

Adjusted operating margin

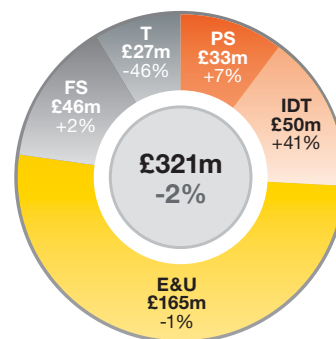


2,100
Employees

Operational highlight of 2007

Profitable through 2007

International



2.7%

Adjusted operating margin



6,500
Employees

Operational highlight of 2007

Continued growth in IDT driven by InBev contract

Financial review

Financial overview

Group revenue was £3,073.2 million, up 27% on a reported basis (2006 restated: £2,420.7 million). This represented pro forma growth of just over 3%, in line with our most recent guidance. Group adjusted operating profit was £207.6 million (2006 restated: £203.4 million), representing an adjusted operating margin of 6.8%. This was below the 8.4% restated level achieved in 2006. The weaker 2007 operating performance was somewhat offset by a lower tax rate, giving adjusted EPS from continuing operations of 10.2p, a 2% reduction over 2006. Cash flow was strong in the second half, with full year cash conversion of 126%. The proposed final dividend is 3.5p, representing a 4% increase in the total dividend for the year to 5.8p. Closing net debt was £483.2 million, with adequate headroom in our current bank facilities even after we redeem the €303 million convertible bonds maturing in September 2008.



Seamus Keating, Chief Financial Officer

- ▶ **P 12** See 'Highlights' and 'Performance' on pages 12 to 15
- ▶ **P 27** See 'One Logica' on page 27
- ▶ **P 30** See outlook for 2008 on page 30
- ▶ **P 31** See 'Our future direction' on page 31

Operating performance – continuing operations

- ▶ **P 16** See 'Our presence' on pages 16 to 17

Our major continental European geographies performed well through the year, with growth above the market in France, Germany, the Netherlands and the Nordics. The UK Public Sector, which continued to account for over half of UK revenue, delivered growth well above the market, up 14% in the second half. However, weakness in our UK commercial sectors continued to have a dampening effect on overall Group performance. The Energy and Utilities business in the UK returned to growth, with second half revenue up 8%. In the International business, revenue was down 2% as a result of contractual price reductions in the Edinfor business and the completion of a major telecoms contract in Asia in early 2007. Excluding the UK commercial business, revenue growth for the Group was ahead of the market at 7%.

Revenue by geography

				Growth	Growth
	FY'07	FY'06	FY'06	FY'07 on	FY'07 on
	£'m	Pro forma	Restated	Pro forma	Restated
		£'m	£'m	%	%
Nordics	836.9	790.1	190.5	5.9	339.3
UK	662.5	718.4	718.4	(7.8)	(7.8)
France	588.2	530.5	560.0	10.9	5.0
Netherlands	484.7	449.2	447.6	7.9	8.3
Germany	179.6	164.4	168.6	9.2	6.5
International	321.3	328.1	335.6	(2.1)	(4.3)
Total continuing	3,073.2	2,980.7	2,420.7	3.1	27.0

Note: Comparatives are based on pro forma IT services and reflect average 2007 exchange rates, exclude businesses disposed of in 2006 (pdv.com and No Limits), exclude French passthrough revenue, are adjusted to include Caran (sold in June 2007) to the beginning of June 2006 and the rest of WM-data (WM-data acquisition completed in October 2006) for the full year (from January to December 2006), are adjusted to include the acquired Siemens Business Services (acquired in March 2007) for the nine months from March 2006 and are adjusted to include the disposals and acquisitions of certain non-core businesses that took place during the year. This is intended to provide a more meaningful comparison to the prior year.

Adjusted operating profit by geography

		FY'07	FY'06	FY'06	Growth FY'07 on FY'06	Growth FY'07 on FY'06
	FY'07	Margin	Pro forma	Restated	Pro forma	Restated
	£'m	%	£'m	£'m	%	%
Nordics	76.7	9.2	68.0	16.9	12.8	353.8
UK	30.5	4.6	77.8	77.8	(60.8)	(60.8)
France	40.8	6.9	46.2	46.8	(11.7)	(12.8)
Netherlands	42.9	8.9	44.4	44.2	(3.4)	(2.9)
Germany	8.1	4.5	(1.4)	(1.4)	n/a	n/a
International	8.6	2.7	19.5	19.1	(55.9)	(55.0)
Total continuing	207.6	6.8	254.5	203.4	(18.4)	2.1

Note: See page 86 for an explanation of the basis of pro forma information and Note 8 on page 111 for a definition of adjusted operating profit.

Our top 10 customers accounted for 15% of Group revenue in 2007 (2006, excluding WM-data: 21%).

Adjusted operating margin for the year of 6.8% was disappointing compared to the pro forma 8.5% achieved in 2006, with second half adjusted operating margin at 7.6% (2006: 9.8%).

The most significant impact on Group margin was in the UK business, reflecting charges in respect of a project cost overrun and weaker performance in the commercial sectors. The cost of management changes affected the margin in France despite a strong operational performance. The impact of price reductions coupled with the timing of cost savings in the Edinfor business in Portugal reduced margins in the International segment. More positively, margins in the Nordics increased from 8.6% to 9.2% as acquisition cost savings of £5 million were achieved. The business in Germany was profitable through the year, building on a well executed integration programme in 2006.

Additionally, as we closed 2007, we have taken a more conservative near-term view of a number of programmes across the Group and have resolved a longstanding UK customer dispute. As a result of these actions, 2007 operating profit was lower than our previous expectations in the UK and the Netherlands. At a Group level, the combined one-off impact for the year of these provisions and charges was a reduction of around 0.8% of margin.

Review of continuing operations by geography

Nordics

Revenue was up 6% on a pro forma basis to £836.9 million, with fourth quarter growth of 5% on a pro forma basis when compared to a strong quarter in 2006. Adjusted operating profit was up 13% on a pro forma basis to £76.7 million (2006: £68.0 million), giving an adjusted operating margin of 9.2%.

IDT grew well ahead of the market, with good growth at customers such as Volvo and Schenker where we secured contract renewals in 2007. The Public Sector business grew in line with the market, with work in the defence sector continuing to be an important contributor. In Financial Services, growth was driven by good customer demand and higher volumes of work with both existing and new customers as we began to leverage the skills of the wider Group into the Nordics. Energy and Utilities (E&U) was broadly stable while lower revenue in the Telecoms and Media business was the result of anticipated lower license sales within billing solutions.

Utilisation remained good across the Nordics and subcontracting levels remain stable. We continue to see good demand for ERP, especially SAP. Appetite for global delivery is on the increase. Initial internal product development work has been transferred to India and use of offshore delivery on customer contracts has increased through the year in both Finland and Sweden.

Financial review

Through a year of integration, we saw almost no attrition at senior levels. The improvement in adjusted operating profit was largely due to anticipated integration cost savings of £5 million as we transitioned some product development work offshore, closed the Logica office in the Nordics and reduced some central overheads. We continue to expect an incremental £8 million of cost savings in 2008, with annualised cost savings of £15 million by 2009.

Excluding the impact of integration cost savings, margin was broadly unchanged. Although improved utilisation and increasing use of offshore resource has had a positive impact on margin, managing higher wage inflation in the context of tough recruitment markets remains the key challenge to increasing margin further in the region.

UK

Revenue was down 8% on a pro forma basis to £662.5 million. The fourth quarter decline of 7% was similar to that experienced in the third quarter. Adjusted operating profit for the year was £30.5 million, compared to a £77.8 million adjusted operating profit in 2006.

The largest contributor to the decrease in adjusted operating profit was the previously disclosed provision on a long-term contract taken in the first half. We have also resolved a longstanding UK customer dispute. These costs, added to a more conservative view taken on elements of some other UK contracts, resulted in a £20 million impact on adjusted operating profit for the year. Absent these charges, adjusted operating margin for the year would have been 7.6%.

Nordics

Revenue by market sector

		FY'06	FY'06	Growth	Growth
	FY'07	Pro forma	Restated	FY'07 on	FY'07 on
	£'m	£'m	£'m	FY'06	FY'06
				Pro forma	Restated
				%	%
Public Sector	252.3	246.7	55.8	2.3	352.2
Industry, Distribution and Transport	382.4	335.5	81.9	14.0	366.9
Energy and Utilities	50.1	50.5	13.0	(0.8)	285.4
Financial Services	86.8	76.4	20.2	13.6	329.7
Telecoms and Media	65.3	81.0	19.6	(19.4)	233.2
Total	836.9	790.1	190.5	5.9	339.3
Outsourcing (%)	33	–	31		
Adjusted operating profit (£'m)	76.7	68.0	16.9		
Adjusted operating margin (%)	9.2	8.6	8.9		

Note: See page 86 for an explanation of the basis of pro forma information.

Finland's Ministry of Transportation and Communications case study: harnessing the potential of innovative technologies

In 2007 Finland's public sector transportation agencies formed a consortium to outsource IT services collectively. Finland's Ministry of Transport and Communications, its Road Administration, Maritime Administration and Rail Administration agencies came together to increase the cost-effectiveness and quality of their outsourced IT services.

Logica, as WM-data, has a long history of partnership with Finnish government agencies. It has provided IT and infrastructural services to the Finnish Road Administration for over a decade.

Under the three-year €10 million contract, Logica will deliver a comprehensive set of IT services to the consortium. The contract includes infrastructure services for electronic transactions as well as identity and access management services for the client consortium. It will include workstation support, life cycle services, communications, critical systems hosting and mobile support.

We are simplifying as well as coordinating processes. A major development project is underway to migrate four separate workstation environments to a single consortium workstation, based on Microsoft Vista. The shared platform will improve inter-agency collaboration, which will make it easier to get Finland's integrated transport policy working on the ground.

Logica was already well known to the agencies as Finland's leading Intelligent Transport Systems (ITS) developer. The contract reinforces our number one status in the Finnish market and has raised our profile in ITS markets across the Nordics.

► logica.com/casestudies

Public Sector revenue was up 10% and represented 56% of UK revenue in 2007. Second half revenue growth was particularly strong at 14%, as we delivered under contracts with the Crown Prosecution Service, the Ministry of Justice, and to the NHS Connecting for Health Programme through arrangements with BT. Space and Defence continued to account for around a third of UK Public Sector revenue. In 2007, we delivered further software for the UK's next generation military satellite communications system, Skynet 5, and continued to deliver under Ministry of Defence contracts such as the Defence Information Infrastructure (DII) programme.

Outside the Public Sector, Energy and Utilities revenue was stable year on year. We made significant improvements in this business through the year, resulting in revenue up 8% in the second half. The IDT sector continued to be affected through the year by the conclusion of a major transport contract in 2006. However, our new contract with BAA and the win with Taylor Wimpey booked at the end of 2007 have contributed to a strengthening order backlog. Across the commercial sectors, our exposure to a smaller number of clients has contributed to weakness through the year, with M&A activity in Financial Services having an impact on consulting revenue in 2007. Our focus will remain on reinvigorating the sales capability across the UK business through 2008.

Book-to-bill for the year was 0.97:1. While we enter 2008 with a good pipeline in Energy and Utilities and a good order backlog in the Public Sector, we expect slower growth in the Public Sector than in 2007. This should be offset by improvements in parts of the commercial sector with a gradual return to a modest level of growth as we go through 2008.

With the majority of the £20 million of costs incurred in the first half, margin improved to 8.0% (2006: 12.6%) in the second half. Margins also benefited from some cost savings achieved as a result of overhead reductions in the first half. Utilisation was lower throughout the year as a result of reduced volume of business in the commercial sectors. We took action to reduce the level of subcontractors through the year although they continue to be deployed in specialist roles where required.

Paradigm Services case study: secure communications for the UK and allied armed forces

The £3.6bn Skynet 5 project is the UK's single biggest space venture. Three next-generation global military satellites will deliver secure, high-bandwidth communications to UK and allied armed forces. In an important milestone, the first two satellites launched successfully during 2007.

Skynet 5 is being delivered through a 15-year service contract with the Paradigm Services consortium. As a member of the consortium and the software prime contractor Logica is delivering key functionality for the service. We are responsible for Skynet 5's management software. We have also developed the telecom operator's back office systems; vital for the successful operation of Skynet.

This £120 million contract brings together our expertise in telecom systems, geospatial technologies, military-specific satellite access planning, network control and security systems.

The MOD's highly flexible and cost effective solution guarantees secure communications whenever and wherever required and allows it to benefit from evolving technologies and increasing capacity.

► logica.com/casestudies

UK

Revenue by market sector

		FY'06	FY'06	Growth	Growth
	FY'07	Pro forma	Restated	FY'07 on	FY'07 on
	£'m	£'m	£'m	FY'06	FY'06
				Pro forma	Restated
				%	%
Public Sector	372.0	337.1	337.1	10.4	10.4
Industry, Distribution and Transport	89.3	136.7	136.7	(34.7)	(34.7)
Energy and Utilities	104.7	104.7	104.7	–	–
Financial Services	60.6	85.7	85.7	(29.3)	(29.3)
Telecoms and Media	35.9	54.2	54.2	(33.8)	(33.8)
Total	662.5	718.4	718.4	(7.8)	(7.8)
Outsourcing (%)	39	40	40		
Adjusted operating profit (£'m)	30.5	77.8	77.8		
Adjusted operating margin (%)	4.6	10.8	10.8		

Note: See page 86 for an explanation of the basis of pro forma information.

Financial review

France

Revenue was up 11% on a pro forma basis to £588.2 million, with strong fourth quarter growth. Adjusted operating profit was £40.8 million (after one-off costs related to management changes), compared to £46.2 million on a pro forma basis in 2006.

Revenue grew across all market sectors, with Public Sector growth at 5% in line with the market and growth in all other sectors above 7%. The fastest growing sector through 2007 continued to be E&U, as we deployed a major programme for EDF. Financial Services was also up on the back of the cross-selling contract signed in 2006. We expect slower growth in Energy and Utilities and Financial Services to be balanced against stronger Public Sector growth in the absence of election activity in 2008.

Half of our major accounts posted growth of more than 10%, with EDF, a number of financial services institutions and our project with the Ministry of Defence driving growth. Roll-out of our contract for Carrefour was also a contributor.

Management changes made in mid-2007 did not hamper recruitment efforts. We recruited successfully in the French market, exceeding internal targets. Excluding the one-off costs related to management changes, adjusted operating margin was 7.8% (2006 pro forma: 8.7%) with some second half dilution compared to 2006 as a result of higher use of subcontractors and a more conservative view on costs related to some contracts where we intend to accelerate the offshore transition. Doubling of our Moroccan headcount through 2007 reflects an increased demand for a blended delivery model among French clients, which we expect to be a positive contributor to margin in 2008.

Carrefour case study: large scale mission critical delivery

When Europe's largest retailer, Carrefour, took the decision to outsource its applications management, cost was a leading consideration. But it also recognised that the right partner would add value: processes would work more efficiently and quality would be improved.

Carrefour was looking for a partner capable of managing a large-scale, complex and mission-critical project in an efficient and cost effective way. As Unilog, Logica's French business had already successfully managed Carrefour's supply chain applications support in France for a number of years and when Unilog became part of Logica, the enlarged Group's global resources provided the assurance that they could manage Carrefour's applications. Its language-specific offshore service centre in Morocco was another key advantage.

As part of the three year, €23 million contract, Logica is supporting 150 key Carrefour applications for 1,200 hypermarket and supermarket stores in France. We provide a full 24-hour service with local representatives on the ground and world-class solutions delivered through our global service network.

logica.com/casestudies

France

Revenue by market sector

	FY'07	FY'06	FY'06	Growth	Growth
	FY'07	Pro forma	Restated	FY'07 on	FY'07 on
	£'m	£'m	£'m	Pro forma	Restated
				%	%
Public Sector	64.1	61.2	60.8	4.7	5.4
Industry, Distribution and Transport	221.4	206.6	238.2	7.2	(7.1)
Energy and Utilities	86.2	66.8	66.4	29.0	29.8
Financial Services	161.3	146.0	145.0	10.5	11.2
Telecoms and Media	55.2	49.9	49.6	10.6	11.3
Total	588.2	530.5	560.0	10.9	5.0
Outsourcing (%)	32	30	30		
Adjusted operating profit (£'m)	40.8	46.2	46.8		
Adjusted operating margin (%)	6.9	8.7	8.4		

Note: See page 86 for an explanation of the basis of pro forma information.

Netherlands

Revenue was up 8% to £484.7 million, marking growth ahead of the market for the third consecutive year. Growth slowed in the fourth quarter in line with our expectations. Book-to-bill for the year was 1.04:1. Adjusted operating profit was £42.9 million, giving an adjusted operating margin of 8.9%.

For the year, revenue growth was driven by a strong Public Sector, with revenue up 19%. Financial Services revenue was broadly stable in the second half when compared to 2006, leading to full year revenue growth of 5%, while Energy and Utilities saw stronger revenue growth in the second half. In IDT, revenue was stable.

In the Financial Services and IDT areas, customers are adopting higher levels of offshore resource to ensure they remain cost competitive globally which has driven a doubling of the use of our blended delivery model in 2007. While we expect a continued increase in volumes of work, this is likely to contribute to lower revenue growth rates in the Dutch market in 2008.

Although we continued to recruit successfully in the Netherlands, the labour market remained very competitive. Higher prices than in 2006 combined with increased use of subcontractors were contributors to increased costs through the year. We also recognised a level of increased cost relative to one long-term contract but continue to see opportunities in our Dutch contracts to transition more work offshore in 2008. The combined impact of these factors was a reduction in operating margin when compared to 2006.

Netherlands

Revenue by market sector

				Growth FY'07 on FY'06	Growth FY'07 on FY'06
	FY'07 £'m	Pro forma FY'06 £'m	Restated FY'06 £'m	Pro forma FY'06 %	Restated FY'06 %
Public Sector	145.3	122.4	121.9	18.7	19.2
Industry, Distribution and Transport	105.7	102.7	103.0	2.9	2.6
Energy and Utilities	50.9	49.7	49.4	2.4	3.0
Financial Services	155.8	148.2	147.3	5.1	5.8
Telecoms and Media	27.0	26.2	26.0	3.1	3.8
Total	484.7	449.2	447.6	7.9	8.3
Outsourcing (%)	18	13	13		
Adjusted operating profit (£'m)	42.9	44.4	44.2		
Adjusted operating margin (%)	8.9	9.9	9.9		

Note: See page 86 for an explanation of the basis of pro forma information.

BNP Paribas case study: banking on the best application management services

One of the largest international banks, BNP Paribas is also a major force in retail banking in its home country, France. Managing the applications used by back office staff to support their retail operations was a major cost for the bank. Consequently, the French Retail Banking IT Service (BDDF-I) division decided to outsource their application management services. In doing so they wanted to ensure that operations would be run by their existing trusted suppliers from 'nearshore' centres in France.

As one of the bank's top suppliers in France, Logica was the natural choice. Through its expertise in application development and management, it has an established reputation with the bank for providing the highest-quality services, on time and on budget.

Logica set up a dedicated centre in Bordeaux that provides a secure high-performance facility to run a growing number of application management services (AMS) for the bank. Working to rigorous service level agreements, the Logica centre has already reduced the cost of managing the bank's maintained applications services by 15% compared to 2002. As more services are introduced, the bank aims to reduce costs further.

In addition, the nearshoring project's use of globally-recognised best practices has ensured the delivery of more secure, reliable services that help the bank's staff work more efficiently.

► logica.com/casestudies

Financial review

Germany

Revenue was up 9% at £179.6 million, driven by particularly strong fourth quarter growth at 13%. Adjusted operating profit was £8.1 million, resulting in an adjusted operating margin of 4.5%. This compares to a loss of £1.4 million in 2006.

Revenue growth was driven by a strong performance in the Financial Services sector as we deployed a programme for a major international bank and risk management solutions for a number of customers in the sector. IDT was up 5% as a result of consulting and services projects undertaken for InBev as well as clients in the automotive sector.

The business in Germany achieved profitability through the year, building on a well executed integration programme in 2006 and driven by revenue growth in the business in 2007.

International

Revenue for the year was down 2% to £321.3 million. The fourth quarter decline of 5% was largely attributable to a major Telecoms and Media contract with Natrindo in Asia which completed in 2006. Book-to-bill for the year was 0.90:1.

Adjusted operating profit was £8.6 million, giving an adjusted operating margin of 2.7%. The lower operating profit was largely due to costs related to improving the efficiency of our business in Portugal, with headcount reduced by around 10% over the course of 2007. The phasing of the cost reduction coupled with planned price reductions reduced margins in the International segment despite improvements in profitability in the US and Australian businesses.

Edinfor revenue continued to account for around a third of International revenue. Edinfor also remained the largest contributor to Energy and Utilities revenue in the region. While EDP remains Edinfor's major client, customers in the Portuguese water utilities market continued to represent around a fifth of revenue. We also continue to see good opportunities in Brazil where our revenue was up in 2007, mainly under our contract with natural gas distribution company Comgás.

Growth in the IDT business continued to be driven by roll-out of the InBev contract while Australia and the Middle East continued to see good Public Sector demand.

Germany

Revenue by market sector

	FY'07	FY'06	FY'06	Growth	Growth
	£'m	Pro forma	Restated	FY'07 on	FY'07 on
		£'m	£'m	Pro forma	Restated
				%	%
Public Sector	6.1	12.2	12.1	(50.0)	(49.6)
Industry, Distribution and Transport	72.3	68.8	67.5	5.1	7.1
Energy and Utilities	25.6	25.1	24.9	2.0	2.8
Financial Services	53.5	33.6	39.5	59.2	35.4
Telecoms and Media	22.1	24.7	24.6	(10.5)	(10.2)
Total	179.6	164.4	168.6	9.2	6.5
Outsourcing (%)	16	20	20		
Adjusted operating profit (£'m)	8.1	(1.4)	(1.4)		
Adjusted operating margin (%)	4.5	(0.9)	(0.8)		

Note: See page 86 for an explanation of the basis of pro forma information.

Our major continental European geographies performed well through the year, with growth above the market in France, Germany, the Netherlands and the Nordics

Creation of new Outsourcing Services division

In 2007, revenue from outsourcing was £959 million (2006: £708 million), representing 31% of Group revenue.

We have recently established Outsourcing Services as a new division, which develops our existing outsourcing model, and have been working internally to ensure the right organisation is in place to take this business forward. The new model will become operational in key European geographies from Q1 2008 and will be in place across the whole organisation by 2009.

European customers are increasingly demanding a blended delivery model. The new division will take end-to-end responsibility for outsourcing services, ensuring that customers have access to the most efficient and cost effective blend of onshore, nearshore and offshore support. It will provide outsourcing sales and design specialists to all Logica's customers via our local organisations. It will accelerate the standardisation of tools and processes and drive efficiencies across the organisation.

The division will incorporate around 9,000 Logica employees working today in our onshore, nearshore and offshore centres. This includes around 2,000 employees in our infrastructure management centres in Sweden.

We expect our largest offshore centres in India and the Philippines to continue to grow within this division. They are already an important element of delivering outsourcing services to customers. In conjunction with our plan to continue to strengthen our Indian presence, we are appointing a new CEO for our business in India.

We also expect growth in our onshore centres as well as in nearshore centres like Morocco and the Czech and Slovak Republics, which allows us to meet the varying language and cultural needs of our customers.

We expect to report performance metrics for this new division from the second half of 2008.

International

Revenue by market sector

		FY'06	FY'06	Growth FY'07 on FY'06	Growth FY'07 on FY'06
	FY'07 £'m	Pro forma £'m	Restated £'m	Pro forma %	Restated %
Public Sector	33.2	31.1	31.6	6.8	5.1
Industry, Distribution and Transport	50.1	35.5	36.6	41.1	36.9
Energy and Utilities	164.7	166.2	169.1	(0.9)	(2.6)
Financial Services	46.7	45.8	47.3	2.0	(1.3)
Telecoms and Media	26.6	49.5	51.0	(46.3)	(47.8)
Total	321.3	328.1	335.6	(2.1)	(4.3)
Outsourcing (%)	37	34	33		
Adjusted operating profit (£'m)	8.6	19.5	19.1		
Adjusted operating margin (%)	2.7	5.9	5.7		

Note: See page 86 for an explanation of the basis of pro forma information.

Employees

At the end of 2007, we had 38,740 employees (2006, restated for the disposal of Telecoms Products: 38,789). Over the course of the year, we recruited over 8,500 new employees. We met or exceeded internal recruitment targets in most of our markets.

Employee churn through annualised voluntary attrition was broadly stable on 2006 at around 16% and was in line with the market. The other significant movement in 2007 was the exit of approximately 1,100 employees as part of the disposal of the Caran business in the Nordics at the beginning of June.

While selective price increases remained possible through the year, wage inflation in our major geographies continued to impact our ability to improve margins further. While UK utilisation has been impacted by weakness in the commercial sectors, utilisation in our other major geographies remains good.



See page 30 of the Business review for further information on employee KPIs

Financial review

Financial items

Amortisation of intangible assets from acquisitions was £74.7 million (2006: £37.6 million), with the increase being mainly attributable to intangible assets acquired as part of the WM-data acquisition.

The net exceptional items of £23.2 million (2006: £23.9 million) include a loss of £9.7 million related to non-core disposals completed during the year (excluding the Telecoms Products disposal which is reported as a discontinued operation). The £9.7 million loss includes a £2.6 million impairment loss on buildings in Portugal (occupied by the Copidata activity prior to its disposal). Also included are £13.5 million of restructuring costs associated with offshoring activities and IT infrastructure as part of the WM-data integration. A further £8.3 million of costs are expected to be incurred in 2008 in respect of the WM-data integration.

Finance costs were broadly unchanged in 2007. Higher amortisation of intangibles compared to 2006 and lower adjusted operating profit resulted in a profit before tax of £84.1 million (2006: £116.6 million).

Adjusted basic earnings per share from continuing operations were 10.2p (2006: 10.4p) on a weighted average number of shares of 1,494.6 million. Basic earnings per share from continuing operations, which included higher amortisation of acquisition-related intangibles than in 2006, were 5.4p (2006: 6.4p).

The fourth quarter showed good operational management of working capital across the Group. Cash generated from continuing operations was £232.4 million (2006: £209.5 million). The net cash inflow from trading operations was £261.0 million, giving a cash conversion of 126% (2006: 119%). Profit from discontinued operations for the year was £89.4 million (2006: £3.7 million), as a result of the disposal of the Telecoms Products business. This resulted in a net profit for the Group of £168.1 million (2006: £89.1 million).

Group net debt at 31 December 2007 was £483.2 million, compared to £399.1 million at 30 June 2007. This increase is largely attributable to a net outflow from the £130 million share buyback completed in November 2007.

European customers are increasingly demanding a blended delivery model. The new Outsourcing Services division will take end-to-end responsibility for outsourcing services

Taxation

Based on the progress of the legal structure integration following the acquisitions in recent years, we have been able to accelerate the benefit of historic tax losses in 2007. The effective tax rate on continuing operations for the year, before share of post-tax profits from associates, exceptional items and amortisation of intangible assets initially recognised on acquisition, was 17.6% (2006: 25.4%). The effective tax rate for 2008 is expected to be around 23%.

The total tax charge for the year ended 31 December 2007 was £5.4 million (2006: £31.2 million) of which a tax credit of £26.4 million (2006: £14.0 million credit) relates to exceptional items and amortisation of intangible assets initially recognised on acquisition. The remaining decrease is mainly due to the use of previously unrecognised tax losses brought forward.

Minority interests

At the time of the WM-data transaction, Logica acquired 95.33% of the Company's issued share capital. The compulsory redemption process to acquire the remaining 4.67% from WM-data minority shareholders is progressing. We currently expect the redemption process to complete by the fourth quarter of 2008.

Acquisitions and disposals

In addition to the acquisition of Siemens Business Systems AS in Norway in the first half of the year, the Group made the following small acquisitions during 2007:

- the remaining 63.7% of Medici Data Oy, a Finnish company specialising in patient care applications and information management services for the health care sector
- the remaining 55% interest in Internet Telecom Payment Solutions AB, a Swedish company providing billing solutions and services for the telecoms sector
- Karttakone Oy, a Finnish company providing digital and paper-based mapping products.

The provisional fair value of the identifiable assets and liabilities acquired in all acquisitions in the year was £15.1 million. Total cash consideration due on these acquisitions was £23.6 million.

In addition to the disposals of the Telecoms Products and Caran businesses disclosed in the first half of 2007, the Group completed the sale of the following non-core businesses during 2007:

- an element of the payroll business in the Netherlands which provided solutions for the SME and local government market;
- the Copidata integrated graphic services business in Portugal;
- the business providing staff augmentation and hosting services to the automotive industry in the United States;
- the former WM-data subsidiary operating in Germany, WM-data Deutschland GmbH;
- the subsidiary operating the Group's IT services business in Austria, LogicaCMG GmbH;
- small finance BPO businesses in Norway and Sweden; and
- a part of the IT services business in Denmark, providing services and products to tax authorities around the world.

The aggregate net assets of these businesses, which are not individually significant, at their date of disposal was £17.7 million. The loss on disposal was £9.7 million. Net cash inflow arising on disposal was £12.8 million.

The total consideration for the sale of non-core businesses (excluding Telecoms Products and Caran) was £15.6 million, of which £15.2 million was received in cash during the year and £0.4 million is receivable during the first half of 2008.

Since the end of 2007, Logica has also acquired a small BPO business in Sweden and has disposed of its UK print and mail operations in Bridgend, Wales.

Balance sheet items

The Group's policy is to maintain adequate headroom to meet its foreseeable financing requirements. With our €303 million convertible bonds due to be redeemed in September 2008, we have ensured that we have sufficient capacity to repay this at the redemption date. In November 2007, we extended the £150 million tranche of our existing bank facilities (which was due to mature in August 2008). This amendment to the loan grants the option to extend until November 2010. The other commercial terms of the loan, which is provided by a group of eight of the Company's relationship banks, remain unchanged.

Logica's other principal bank facilities are a €348 million term loan and a £330 million multi-currency revolving credit facility, which is largely undrawn. Both of these fully committed facilities mature in September 2010.

These facilities provide us with adequate headroom to repay our convertible debt at the redemption date, while remaining well within our banking covenants.

Events after the balance sheet date

At the time of the announcement of the Telecoms Products disposal in early 2007, we allocated a portion of the proceeds to be used to buy out remaining minority interests in Edinfor and WM-data. EDP has a put option in respect of its remaining 40% interest in Edinfor. This became exercisable on 21 April 2007. On 19 February 2008, we received formal notification that EDP intended to exercise this option and we acquired the remaining 40% of the business in March 2008 for €55 million.

Dividend

The Directors have proposed a final dividend of 3.5 pence to be paid on 15 May 2008 to eligible shareholders on the register at the close of business on 18 April 2008. This year's proposed total dividend of 5.8 pence represents a 4% increase on 2006.



Seamus Keating
Chief Financial Officer

Financial statements and notes

► Independent auditors' report to the members of LogicaCMG plc

We have audited the Group Financial statements of LogicaCMG plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes. These Group Financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company Financial statements of LogicaCMG plc for the year ended 31 December 2007 and on the information in the Report of the Remuneration Committee that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual report and the Group Financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group Financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group Financial statements give a true and fair view and whether the Group Financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the Group Financial statements. The information given in the Report of the Directors includes that specific information presented in the Financial review that is cross referred from the Business review section of the Report of the Directors.

In addition we report to you if, in our opinion, 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 review whether the Corporate governance report reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual report and consider whether it is consistent with the audited Group Financial statements. The other information comprises only the Chairman's statement, the Chief Executive's review, the Financial review, the Report of the Directors, the Corporate social responsibility statement and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group 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 Group Financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group Financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group Financial statements.

Opinion

In our opinion:

- the Group Financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the Group Financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the report of the Directors is consistent with the Group Financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

20 March 2008

► **Consolidated income statement** For the year ended 31 December 2007

	Note	2007 £'m	Restated* 2006 £'m
CONTINUING OPERATIONS:			
Revenue	5	3,073.2	2,420.7
Net operating costs	6	(2,963.5)	(2,278.8)
Operating profit		109.7	141.9
ANALYSED AS:			
Operating profit before exceptional items		132.9	165.8
Exceptional items	7	(23.2)	(23.9)
Operating profit	5	109.7	141.9
Finance costs	10	(37.8)	(34.3)
Finance income	11	11.0	8.7
Share of post-tax profits from associates		1.2	0.3
Profit before tax	12	84.1	116.6
Taxation	13	(5.4)	(31.2)
Profit for the year from continuing operations		78.7	85.4
DISCONTINUED OPERATION:			
Profit from discontinued operation	14	89.4	3.7
Net profit for the year		168.1	89.1
ATTRIBUTABLE TO:			
Equity holders of the parent		169.9	82.0
Minority interests		(1.8)	7.1
		168.1	89.1
		p/share	p/share
Earnings per share from continuing operations			
– Basic	16	5.4	6.4
– Diluted	16	5.3	6.3
Earnings per share from total operations			
– Basic	16	11.4	6.7
– Diluted	16	11.2	6.6

* Restated as described further in Note 14.

► **Consolidated statement of recognised income and expense** For the year ended 31 December 2007

	2007 £'m	2006 £'m
Exchange differences on translation of foreign operations	97.4	(4.1)
Exchange differences recycled on disposal of foreign operations	5.1	–
Cash flow hedges transferred to income statement on settlement	–	(2.0)
Actuarial gains on defined benefit plans	3.6	17.5
Tax on items taken directly to equity	–	(3.9)
Net income recognised directly in equity	106.1	7.5
Profit for the year	168.1	89.1
Total recognised income and expense for the year	274.2	96.6
ATTRIBUTABLE TO:		
Equity holders of the parent	274.0	89.4
Minority interests	0.2	7.2
	274.2	96.6

Details of dividends paid and proposed are provided in Note 15.

► Consolidated balance sheet 31 December 2007

	Note	2007 £'m	2006 £'m
Non-current assets			
Goodwill	17	1,604.0	1,552.1
Other intangible assets	18	358.0	415.1
Property, plant and equipment	19	132.1	136.6
Investments in associates	20	2.4	6.0
Financial assets	21	11.0	10.1
Retirement benefit assets	38	12.0	18.7
Deferred tax assets	28	54.5	50.6
		2,174.0	2,189.2
Current assets			
Inventories	22	1.4	2.9
Trade and other receivables	23	1,021.2	1,070.2
Current tax assets		40.5	31.2
Cash and cash equivalents	34	108.7	177.3
		1,171.8	1,281.6
Current liabilities			
Convertible debt	25	(220.0)	(202.4)
Other borrowings	25	(97.2)	(33.1)
Trade and other payables	24	(868.2)	(886.4)
Current tax liabilities		(56.1)	(32.3)
Provisions	27	(9.1)	(20.8)
		(1,250.6)	(1,175.0)
Net current (liabilities)/assets		(78.8)	106.6
Total assets less current liabilities		2,095.2	2,295.8
Non-current liabilities			
Borrowings	25	(274.7)	(498.9)
Retirement benefit obligations	38	(50.6)	(64.1)
Deferred tax liabilities	28	(125.0)	(164.4)
Provisions	27	(18.9)	(13.2)
Other non-current liabilities		(0.7)	(0.8)
		(469.9)	(741.4)
Net assets		1,625.3	1,554.4
Equity			
Share capital	29	145.8	153.6
Share premium account	30	1,098.9	1,097.0
Other reserves	31	352.3	274.4
Total shareholders' equity		1,597.0	1,525.0
Minority interests	32	28.3	29.4
Total equity		1,625.3	1,554.4

The consolidated Financial statements on pages 97 to 145 were approved by the Board of Directors on 20 March 2008 and were signed on its behalf by:

A Green
S Keating
 Directors
 20 March 2008

► **Consolidated cash flow statement** For the year ended 31 December 2007

	Note	2007 £'m	Restated* 2006 £'m
Cash flows from continuing operating activities			
Net cash inflow from trading operations		261.0	242.5
Cash outflow related to restructuring and integration activities		(28.6)	(33.0)
Cash generated from continuing operations	33	232.4	209.5
Finance costs paid		(40.2)	(26.3)
Income tax paid		(45.8)	(31.5)
Net cash inflow from continuing operating activities		146.4	151.7
Net cash inflow/(outflow) from discontinued operating activities		7.0	(1.3)
Cash flows from continuing investing activities			
Finance income received		7.0	5.1
Dividends received from associates		1.0	–
Proceeds on disposal of property, plant and equipment		2.2	2.2
Purchases of property, plant and equipment		(35.3)	(28.2)
Expenditure on intangible assets		(13.0)	(17.1)
Purchase of minority interests		(2.2)	–
Deferred consideration and acquisition of subsidiaries, net of cash acquired		(34.2)	(398.3)
Disposal of subsidiaries and other businesses, net of cash disposed		42.0	1.9
Disposal of discontinued operation, net of cash disposed		213.2	–
Net cash inflow/(outflow) from continuing investing activities		180.7	(434.4)
Net cash outflow from discontinued investing activities		–	(5.5)
Cash flows from continuing financing activities			
Proceeds from issue of new shares		2.5	3.4
Payment for share issue costs		–	(5.4)
Purchase of own shares		(130.8)	–
Proceeds from transfer of shares by ESOP trust		0.8	–
Proceeds from bank borrowings		34.5	480.6
Repayments of bank borrowings		(204.2)	(208.0)
Repayments of finance lease principal		(4.7)	(2.1)
Repayments of borrowings assumed in acquisitions		–	(3.8)
Proceeds from other borrowings		–	0.4
Repayments of other borrowings		–	(0.4)
Payments on forward contracts designated as a net investment hedge		(6.3)	–
Dividends paid to the Company's shareholders		(85.9)	(61.1)
Dividends paid to minority interests		(0.4)	(1.8)
Net cash (outflow)/inflow from continuing financing activities		(394.5)	201.8
Net decrease in cash, cash equivalents and bank overdrafts		(60.4)	(87.7)
Cash, cash equivalents and bank overdrafts at the beginning of the year	34	150.9	245.3
Net decrease in cash, cash equivalents and bank overdrafts	34	(60.4)	(87.7)
Effect of foreign exchange rates	34	9.1	(6.7)
Cash, cash equivalents and bank overdrafts at the end of the year		99.6	150.9

* Restated as described further in Note 33.

► **Note 1** General information

Logica is a leading European IT and business services company, employing 39,000 people across 36 countries. It provides business consulting, systems integration, and IT and business process outsourcing services. Logica works closely with its customers to release their potential – enabling change that increases their efficiency, accelerates growth and manages risk. It applies its deep industry

knowledge, technical excellence and global delivery expertise to help its customers build leadership positions in their markets. Logica is listed on both the London Stock Exchange and Euronext (Amsterdam) (LSE: LOG; Euronext: LOG). More information is available at www.logica.com.

The Company is a public company incorporated and domiciled in the UK. The address of its registered office is Stephenson House, 75 Hampstead Road, London NW1 2PL, UK.

► **Note 2** Accounting policies

Basis of preparation

These consolidated Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), IFRIC interpretations and those parts of the Companies Act 1985 (the Act) that remain applicable to companies reporting under IFRSs.

The consolidated Financial statements have been prepared under the going concern basis and under the historical cost convention with the exception of certain items which are measured at fair value, as disclosed in the accounting policies below.

Basis of consolidation

The consolidated Financial statements include those of the Company and all of its subsidiary undertakings (together, the Group), and the Group's share of the results of associates and joint ventures. Investments in associates and joint ventures are accounted for using the equity method.

Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control arises when the Company has the ability to direct the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or sold are included in the consolidated income statement from the date of acquisition or up to the date of disposal respectively, using the same accounting policies as those of the Group. All business combinations are accounted for using the purchase method.

On acquisition, the interest of any minority shareholders is stated at the minority's proportion of the fair value of the assets and liabilities recognised. Subsequently, the minority interest in the consolidated balance sheet reflects the minority's proportion of changes in the net assets of the subsidiary. A minority interest is not recognised in a subsidiary with net liabilities except to the extent that the minority has a binding obligation, and is able to make an additional investment, to cover cumulative losses.

All intercompany transactions and balances are eliminated on consolidation.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale in the balance sheet if their carrying amount will be recovered through a sale transaction rather than ongoing use but only if the sale is highly probable and is expected to complete within one year from the date of classification. Non-current assets and disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The results of an operation that represents a separate major line of business and either has been disposed of during the period or is classified as held for sale, are classified as discontinued operations. The post-tax profit or loss of the discontinued operation, plus the post-tax gain or loss recognised on the measurement of the assets and liabilities within the disposal group at fair value less costs to sell, is presented as a single amount on the face of the income statement.

Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any accumulated impairment losses. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the identifiable assets, liabilities and contingent liabilities acquired in a business combination and the excess of the consideration paid for an increase in stake in an existing subsidiary over the share of the carrying value of net assets acquired.

Development costs

Expenditure incurred in the development of software products or enhancements, and their related intellectual property rights, is capitalised as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria, and all research costs, are expensed in the income statement as incurred. Capitalised development costs are amortised on a straight-line basis over their useful economic lives once the related software product or enhancement is available for use.

Other intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost and amortised over their useful economic life. Intangible assets acquired through a business combination are initially measured at fair value and amortised over their useful economic lives.

The useful economic lives of the other intangible assets are as follows:

Brand names	3–5 years
Purchased computer software	3 years
Software products recognised on acquisition	3–7 years

► **Note 2** Accounting policies (continued)

Customer contracts and relationships are amortised over their useful economic life which are between five and eight years, except for one contract in the International category which has a useful life of 10 years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset into use.

Depreciation is calculated on a straight-line basis to write down the assets to their estimated residual value over their useful economic lives at the following annual rates:

Furniture	10–20%
Computer equipment	25–33%
Partitions and office equipment	10–20%
Motor vehicles	25%
Freehold property	2%
Leasehold equipment and plant	Life of lease

The residual values and useful economic lives of property, plant and equipment are reviewed annually. Freehold land and properties under construction are not depreciated. Borrowing costs related to the purchase of fixed assets are not capitalised.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as property, plant and equipment at an amount equal to the fair value of the leased assets or, if lower, the present value of minimum lease payments at the inception of the lease, and then depreciated over their useful economic lives. Lease payments are apportioned between repayment of capital and interest. The capital element of future lease payments is included in the balance sheet as a liability. Interest is charged to the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a reduction in the rental expense over the lease term.

Impairment of non-current assets

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The recoverable amount of the cash-generating unit to which the goodwill relates is tested annually for impairment or when events or changes in circumstances indicate that it might be impaired. The carrying values of property, plant and equipment, investments measured using a cost basis and intangible assets other than goodwill are reviewed for impairment only when events indicate the carrying value may be impaired.

In an impairment test, the recoverable amount of the cash-generating unit or asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell and the value in use to the Group. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount.

In determining a cash-generating unit's or asset's value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the cash-generating unit or asset that have not already been included in the estimate of future cash flows.

Inventories

Inventories represent computer equipment that, at the balance sheet date, had not yet been allocated to a specific customer contract and materials, including work-in-progress, used in document printing and finishing.

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in-first-out (FIFO) method. Net realisable value represents the estimated selling price less costs to be incurred in marketing, distribution and sale.

Amounts recoverable on contracts represent revenue which has not yet been invoiced to customers on fixed price contracts. Such amounts are separately disclosed within trade and other receivables. The valuation of amounts recoverable on contracts is adjusted to take up profit to date or foreseeable losses in accordance with the Group's accounting policy for profit recognition.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will probably not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulty of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the trade receivable is reduced through the use of a provision account and the amount of the loss is recognised in the income statement within net operating costs. When a trade receivable is considered uncollectable, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against net operating costs in the income statement.

A trade or other receivable is derecognised from the balance sheet when the Group enters into a financing transaction which transfers to a third party all significant rights or other access to benefits relating to that asset and all significant exposures to the risks inherent in that asset.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

► Note 2 Accounting policies (continued)

Financial instruments

The following policies for financial instruments have been applied in the preparation of the consolidated Financial statements.

Cash and cash equivalents

For the purpose of preparation of the cash flow statement, cash and cash equivalents include cash at bank and in hand, and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of offset against positive cash balances, otherwise bank overdrafts are classified as borrowings in the balance sheet.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated either at amortised cost or, if designated as such, at fair value through profit or loss.

For borrowings stated at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

The Group's euro-denominated convertible bonds have been designated as a financial liability at fair value through profit or loss. The change in the fair value of the convertible bonds that reflects the movement in the quoted market price of the convertible bonds is recognised in the income statement as either interest income or expense. The change in fair value relating to the movement of the exchange rate between the euro and pounds sterling is treated as a hedge of net investments in foreign operations (see below). Foreign exchange gains and losses on the convertible bonds are taken directly to equity to the extent that the hedge is effective.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured at fair value. The fair values of derivatives are measured using observable market prices or, where market prices are not available, by using discounted expected future cash flows at prevailing interest and exchange rates. The gain or loss on remeasurement is taken to the income statement except where the derivative is part of a designated cash flow hedge or a designated hedge of a net investment in a foreign operation.

The effective portion of changes in the fair value of derivatives that are designated and qualify as a cash flow hedge of a firm commitment or highly probable forecasted transaction are recognised directly in equity. The gain or loss relating to the ineffective portion of a cash flow hedge is recognised immediately in the income statement.

If the cash flow hedge results in the recognition of an asset or liability, then the associated gains or losses on the derivative that had previously been recognised in equity are included in the measurement of the asset or liability at the time the asset or liability is recognised. For cash flow hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are transferred to the income statement in the same period as the underlying transaction occurs.

Where the Group hedges net investments in foreign entities through currency borrowings or derivative financial instruments, the gains or losses on the translation of the borrowings or change in fair value of the derivative are recognised in equity. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Changes in the fair value of derivative financial instruments that are not designated as hedging instruments or do not qualify for hedge accounting are recognised in the income statement as they arise. Changes in the fair value of derivatives or other hedging instruments transacted as hedges of financial items are recognised in finance costs/income in the income statement as they arise. Any resulting ineffectiveness is recognised directly in the income statement.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or designated as such on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the income statement.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment and are classified as trade and other receivables in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Such financial assets are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Unlisted and listed shares held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair values. The fair values of quoted shares are based on current bid prices. If the market for a financial asset is not active (unlisted shares), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models. Gains and losses arising from changes in fair value are recognised directly in equity with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement.

► **Note 2** Accounting policies (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or Group of financial assets is impaired. For unlisted shares classified as available-for-sale, a significant prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair values, less any impairment loss on those financial assets previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account.

Impairment testing of trade receivables is described above.

Taxation

Current tax is recognised based on the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on temporary differences that arise between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding tax bases. Liabilities are recorded on all temporary differences except in respect of investments in subsidiaries and joint ventures where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be offset.

Deferred tax is measured on an undiscounted basis using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Current and deferred tax are recognised in the income statement, except when the tax relates to items charged or credited directly to equity, in which case the tax is also dealt with directly in equity.

Provisions

Provisions are recognised for restructuring costs when the Group has a detailed formal plan for the restructuring that has been communicated to affected employees. Provisions are recognised for future committed property lease payments when the Group receives no benefit from the property through continuing usage and future receipts from any sub-letting arrangements are not in excess of the Group's future committed payments.

Where the time value of money is material, provisions are measured at the present value of expenditures expected to be paid in settlement.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Foreign currencies

The presentation currency of the Group is pounds sterling. The Group also presents primary statements in euros, see pages 160 to 162.

Items included in the separate Financial statements of Group entities are measured in the functional currency of each entity. Transactions denominated in foreign currencies are translated into the functional currency of the entity at the rates prevailing at the dates of the individual transactions. Foreign currency monetary assets and liabilities are translated at the rates prevailing at the balance sheet date. Exchange gains and losses arising are charged or credited to net operating costs or finance costs/income in the income statement, as appropriate, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

The income statement and balance sheet of foreign entities are translated into pounds sterling on consolidation at the average rates for the period and the rates prevailing at the balance sheet date respectively. Exchange gains and losses arising on the translation of the Group's net investment in foreign entities, and of financial instruments designated as hedges of such investments, are recognised as a separate component of shareholders' equity. On disposal of a foreign entity, the cumulative translation differences are recycled to the income statement and recognised as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates prevailing at the balance sheet date.

The most important foreign currencies for the Group are the euro and the Swedish krona. The relevant exchange rates to pounds sterling were:

	2007		2006	
	Average	Closing	Average	Closing
£1 = €	1.46	1.36	1.47	1.48
£1 = SEK	13.51	12.87	13.57	13.39

Government grants

Grants related to assets are recognised initially as deferred income and subsequently credited to the income statement on the same basis that the related assets are depreciated. Grants related to income are credited to the income statement over the periods to match them with the related costs which they are intended to compensate.

Revenue and profit recognition

Revenue represents the fair value of consideration received or receivable from clients for goods and services provided by the Group, net of discounts, VAT and other sales-related taxes. Where the time value of money is material, revenue is recognised as the present value of the cash inflows expected to be received from the customer in settlement.

Revenue from the sale of software products or hardware with no significant service obligation is recognised 100% on delivery. Revenue from the sale of software products or hardware requiring significant modification, integration or customisation is recognised using the percentage of completion method.

► Note 2 Accounting policies (continued)

The revenue and profit of contracts for the supply of professional services at predetermined rates is recognised as and when the work is performed, irrespective of the duration of the contract.

The revenue and profit on fixed price contracts is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. A contract's outcome is deemed to be capable of reliable estimation at the earlier of six months from contract commencement and the date at which the contract is 50% complete. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered.

The stage of contract completion is determined by reference to the costs of professional services incurred to date as a proportion of the total estimated costs of professional services, except in rare circumstances when measuring the stage of contract completion using total contract costs is more representative of the work performed, in which case total contract costs are used. Where a contract contains multiple elements, the individual elements are accounted for separately where appropriate.

Provision is made for all foreseeable future losses in the period in which it is identified.

Segment reporting

At 31 December 2007, Logica was organised into six geographical segments based on the location of assets. These segments are the Group's primary reporting format for segment information as they represent the dominant source and the nature of the Group's risks and returns following the sale of the Telecoms Products business. The Group's secondary reporting format is by vertical market.

Inter-segment sales are charged at arm's length prices. Segment assets include all intangible assets, property, plant and equipment, inventories and trade and other receivables but exclude tax assets, derivative financial assets and cash and cash equivalents. Segment liabilities comprise mainly trade and other payables, retirement benefit obligations and certain borrowings that can be attributed to the segment but exclude tax liabilities, derivative financial liabilities and borrowings that are for general corporate purposes. Capital expenditure comprises additions to property, plant and equipment and intangible assets. Total assets are allocated based on where the assets are located.

Exceptional items

Exceptional items fall within operating and financial activities of the Group but are identified as exceptional items by virtue of their size, nature or incidence. These items are disclosed in aggregate on the face of the income statement to aid an understanding of the Group's financial performance.

Employee benefits

Retirement benefits

The Group operates retirement benefit plans of both a defined contribution and defined benefit nature. Retirement benefit plans that are funded by the payment of insurance premiums are treated as defined contribution plans unless the Group has an obligation either to pay the benefits directly when they fall due or to pay further amounts if assets accumulated with the insurer do not cover all future employee benefits. In such circumstances, the plan is treated as a defined benefit plan.

The cost of defined contribution plans is charged to the income statement on the basis of contributions payable by the Group during the year.

For defined benefit plans, the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The retirement benefit liability in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of plan assets and unrecognised past service cost. A retirement benefit asset is recognised to the extent that the Group can benefit from refunds or a reduction in future contributions.

Insurance policies are treated as plan assets of a defined benefit plan if the proceeds of the policy:

- can only be used to fund employee benefits;
- are not available to the Group's creditors; and
- either cannot be paid to the Group unless the proceeds represent surplus assets not needed to meet all the benefit obligations or are a reimbursement for benefits already paid by the Group.

Insurance policies that do not meet the above criteria are treated as non-current investments and are held at fair value in the balance sheet.

The current service cost is recognised in the income statement as an employee benefit expense. The interest cost resulting from the increase in the present value of the defined benefit obligation over time and the expected return on plan assets, is recognised as net interest expense or income. The expected return on plan assets is, for UK defined benefit pension schemes, shown net of an expected reduction for payments to the Pension Protection Fund (the 'PPF levy'). The difference between the actual and expected PPF levy is treated as an actuarial gain or loss.

A past service cost is recognised immediately to the extent that benefits have already vested, or is otherwise amortised on a straight-line basis over the average period until the benefits vest.

Actuarial gains and losses arising from experience adjustments or changes in actuarial assumptions are charged or credited in the statement of recognised income and expense in the period in which they arise.

Share-based payment

The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the income statement.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value at the grant date of the shares or share options awarded and the number that are expected to vest. The assumptions underlying the number of awards expected to vest are subsequently adjusted to reflect conditions prevailing at the balance sheet date. At the vesting date of an award, the cumulative expense is adjusted to take account of the awards that actually vest.

Short-term compensated absences

A liability for short-term compensated absences, such as holiday, is recognised for the amount the Group may be required to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

► **Note 2 Accounting policies (continued)***Death-in-service benefits*

Insured death-in-service benefits are accounted for as defined contribution arrangements. Death-in-service benefits for which the Group does not have insurance cover are accounted for as defined benefit arrangements.

Employee share ownership trusts

Employee share ownership plan (ESOP) trusts, which purchase and hold ordinary shares of the Company in connection with certain employee

share plans, are consolidated in the Group Financial statements. Any consideration paid or received by ESOP trusts for the purchase or sale of the Company's own shares is shown as a movement in shareholders' equity.

Dividends

Dividends to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the period in which the shareholders' right to receive payment is established.

► **Note 3 Adoption of new and revised International Financial Reporting Standards**

The accounting policies adopted in these consolidated Financial statements are consistent with those of the annual Financial statements for the year ended 31 December 2006, except that the following standards, amendments to and interpretations of published standards were adopted during the year:

- IFRIC 7, 'Applying the restatement approach under IAS 29'.
- IFRIC 8, 'Scope of IFRS 2'.
- IFRIC 9, 'Reassessment of Embedded Derivatives'.
- IFRIC 10, 'Interim Financial Reporting and Impairment'.
- IFRS 7, 'Financial Instruments: Disclosures' and IAS 1, 'Amendments to capital disclosures'. The full IFRS 7 disclosures, including the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS 1, are given in these annual Financial statements. IAS 1 (revised) is still subject to endorsement by the European Union.
- IFRS 4, 'Insurance contracts'. This interpretation was not relevant to the Group.

Except for the additional disclosure under IFRS 7, the above standards, amendments to and interpretation of published standards had no material impact on the consolidated Financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions', effective for annual periods beginning on or after 1 March 2007. Management do not expect this interpretation to have a significant impact on the consolidated Financial statements.
- IFRIC 12, 'Service concession arrangements', effective for annual periods beginning on or after 1 January 2008. Management do not expect this interpretation to be relevant for the Group. The amendment to the standard is still subject to endorsement by the European Union.

- IFRIC 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. Management do not expect this interpretation to be relevant to the Group. The amendment to the standard is still subject to endorsement by the European Union.
- IFRIC 14, 'IAS 19 – The limit of a defined benefit asset, minimum funding requirements and their interaction', effective for annual periods beginning on or after 1 January 2009. Management do not expect the interpretation to have a significant impact on the consolidated Financial statements. The amendment to the standard is still subject to endorsement by the European Union.
- IAS 1, 'Presentation of Financial statements', effective for annual periods beginning on or after 1 January 2009. No significant impact on the consolidated Financial statements is expected, except for additional disclosure.
- IAS 23 (Amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. Management do not expect the interpretation to have a significant impact on the consolidated Financial statements. The amendment to the standard is still subject to endorsement by the European Union.
- IAS 27 (Revised), 'Consolidated and Separate Financial statements', must be applied prospectively by the Group from 1 January 2010. The revised standard requires that acquisitions and disposals that do not result in a change of control are accounted for within equity. Any difference between the change in the minority interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. The revised standard is still subject to endorsement by the European Union.
- IFRS 2 (Amendment), 'Share-based payment', effective for annual period beginning on or after 1 January 2009. The amendment to the standard limits vesting conditions to service conditions and performance conditions. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, namely, acceleration of the expense based on the grant date fair value. No significant impact on the consolidated Financial statements is expected. The amendment to the standard is still subject to endorsement by the European Union.

► **Note 3** Adoption of new and revised International Financial Reporting Standards (continued)

- IFRS 3 (Revised), 'Business combinations', must be applied prospectively by the Group from 1 January 2010. The revised standard requires that all acquisition-related costs are to be expensed to the income statement in the period incurred. Furthermore, purchase accounting only applies at the point when control is achieved. This has a number of implications:
 - where the acquirer has a pre-existing equity interest in the entity acquired and increases its equity interest such that it achieves control, it must remeasure its previously-held equity interest to fair value as at the date of obtaining control and recognise any resulting gain or loss in the income statement.
 - once control is achieved all other increases and decreases in ownership interest are treated as transactions among equity holders and reported directly within equity. Goodwill is not remeasured or adjusted.

The revised standard is still subject to endorsement by the European Union.

- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. The main impact would be that operating segments would be identified, and segment information provided, on the same basis as is used internally for evaluating segment performance and allocating resources. Reconciliations would be provided of total segment revenues, profit, assets, liabilities and other amounts to the corresponding amounts in the consolidated Financial statements, together with an explanation of any differences in measurement basis.

All the IFRSs, IFRIC interpretations and amendments to existing standards had been adopted by the EU at the date of approval of these consolidated Financial statements, unless otherwise indicated.

Except as discussed above, the Directors anticipate that the future adoption of those standards, interpretations and amendments listed above that have not been adopted early will not have a material impact on the consolidated Financial statements.

► **Note 4** Key areas of estimation uncertainty

In preparing the consolidated Financial statements, management has to make judgements on how to apply the Group's accounting policies and make estimates about the future. The critical judgements that have been made in arriving at the amounts recognised in the consolidated Financial statements and the key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year, are discussed below.

Revenue recognition

The revenue and profit of fixed price contracts is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. Management exercises judgement in determining whether a contract's outcome can be estimated reliably. Management also makes estimates of the total cost of professional services, or in some instances total contract costs, which are used in determining the value of amounts recoverable on contracts. Estimates are continually revised based on changes in the facts relating to each contract. The carrying amount of amounts recoverable on contracts is disclosed in Note 23.

Impairment of goodwill

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash-generating units, including management's estimates of long-term operating margins and long-term growth rates. The carrying amount of goodwill and the key assumptions used in the calculation of value in use of cash-generating units to which goodwill is attributed are disclosed in Note 17.

If the estimated pre-tax discount rate applied to the discounted cash flow of all cash-generating units were 1% higher than management's estimates, the Group would not have recognised any goodwill impairment charge. If the long-term operating margin used

in the value-in-use calculations for all cash-generating units were 1% lower than management's estimates, the Group would not have recognised any goodwill impairment charge. If the long-term growth rate used in the value-in-use calculations for all cash-generating units were 1% lower than management's estimates, the Group would not have recognised any goodwill impairment charge.

Defined benefit plans

The calculation of the defined benefit obligation of a defined benefit plan requires estimation of future events, for example salary and pension increases, inflation and mortality rates. In the event that future experience does not bear out the estimates made in previous years, an adjustment will be made to the plan's defined benefit obligation in future periods which could have a material effect on the Group. The carrying amounts of assets and liabilities relating to defined benefit plans, together with the key assumptions used in the calculation of the defined benefit obligations relating to those plans and sensitivity to those key assumptions are disclosed in Note 38.

Income taxes

In recognising income tax assets and liabilities, management makes estimates of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain. Where the final outcome of such matters is different, or expected to be different, from previous assessments made by management, a change to the carrying value of income tax assets and liabilities will be recorded in the period in which such a determination is made. The carrying values of income tax assets and liabilities are disclosed separately in the consolidated balance sheet.

If the actual final outcome on the judgement areas were to differ by 10% from management's estimates, the Group would need to:

- increase the income and deferred tax liability by £6.9 million if unfavourable; or
- decrease the income and deferred tax liability by £7.0 million if favourable.

► **Note 5** Segment information

At 31 December 2007, Logica was organised into six geographical segments based on the location of assets. These segments are the Group's primary reporting format for segment information as they represent the dominant source and the nature of the Group's risks and returns following the disposal of the Telecoms Products business in June 2007.

Primary basis – geographical segments

Segment revenue and profit after tax under the primary reporting format are disclosed in the table below.

	Revenue		Profit	
	2007	2006	2007	2006
	£'m	£'m	£'m	£'m
Nordics	836.9	190.5	13.4	4.8
United Kingdom	662.5	718.4	30.5	86.8
France	588.2	560.0	20.2	13.0
Netherlands	484.7	447.6	47.3	44.2
Germany	179.6	168.6	5.4	(19.5)
International	321.3	335.6	(7.1)	12.6
Revenue and operating profit	3,073.2	2,420.7	109.7	141.9
Finance costs			(37.8)	(34.3)
Finance income			11.0	8.7
Share of post-tax profits from associates			1.2	0.3
Taxation			(5.4)	(31.2)
Profit after tax from continued operations			78.7	85.4
Discontinued operation			89.4	3.7
Profit after tax			168.1	89.1

The share of post-tax profits from associates in the years ended 31 December 2007 and 2006 was attributable to the Nordics geographical segment. Inter-segment revenue for the International category was £40.4 million (2006: £30.7 million). Inter-segment revenue for the other categories was not material.

Other items included in the income statement and capital expenditure for the year were as follows:

	2007			
	Capital expenditure	Depreciation	Amortisation	Other non-cash expenses
	£'m	£'m	£'m	£'m
Nordics	11.9	10.5	51.2	2.1
United Kingdom	7.2	7.7	1.7	1.7
France	11.4	4.9	21.2	2.2
Netherlands	7.4	2.1	0.7	1.2
Germany	3.4	3.7	3.5	0.5
International	14.8	9.8	5.7	0.8
Continuing operations	56.1	38.7	84.0	8.5
Discontinued operation	0.2	1.4	0.1	0.6
	56.3	40.1	84.1	9.1

► **Note 5** Segment information (continued)

	2006			
	Capital expenditure £'m	Depreciation £'m	Amortisation £'m	Other non-cash expenses £'m
Nordics	5.8	2.1	11.1	0.7
United Kingdom	9.8	7.3	0.9	2.6
France	5.7	4.4	23.6	2.5
Netherlands	1.7	2.9	1.1	1.7
Germany	5.8	3.0	3.2	0.6
International	18.8	9.5	4.2	1.2
Continuing operations	47.6	29.2	44.1	9.3
Discontinued operation	6.1	3.5	1.9	0.9
	53.7	32.7	46.0	10.2

The segment assets were as follows:

	2007		
	Segment assets £'m	Investments in associates £'m	Total assets £'m
Nordics	1,201.6	2.1	1,203.7
United Kingdom	453.7	–	453.7
France	860.5	0.1	860.6
Netherlands	175.1	–	175.1
Germany	178.2	–	178.2
International	265.2	0.2	265.4
Continuing operations	3,134.3	2.4	3,136.7
UNALLOCATED ASSETS			
Cash and cash equivalents			108.7
Tax assets			95.0
Derivative financial assets			5.4
Total assets			3,345.8

	Restated 2006		
	Segment assets £'m	Investments in associates £'m	Total assets £'m
Nordics	1,189.6	5.4	1,195.0
United Kingdom	470.3	–	470.3
France	769.5	0.1	769.6
Netherlands	152.1	0.1	152.2
Germany	165.5	–	165.5
International	299.9	0.4	300.3
Continuing operations	3,046.9	6.0	3,052.9
Discontinued operation			157.4
UNALLOCATED ASSETS			
Cash and cash equivalents			177.3
Tax assets			81.8
Derivative financial assets			1.4
Total assets			3,470.8

► **Note 5** Segment information (continued)

The segment liabilities were as follows:

	2007 £'m	2006 £'m
Nordics	234.3	213.0
United Kingdom	166.4	187.4
France	272.9	232.4
Netherlands	102.2	83.5
Germany	68.2	64.8
International	101.0	135.6
Continuing operations	945.0	916.7
Discontinued operation	–	68.1
UNALLOCATED LIABILITIES		
Borrowings	591.9	734.4
Tax liabilities	181.1	196.8
Derivative financial liabilities	2.5	0.4
Total liabilities	1,720.5	1,916.4

Secondary format – vertical market segments

The following table provides an analysis of the Group's revenue by vertical market segment.

	2007 £'m	2006 £'m
Public Sector	873.0	619.3
Industry, Distribution and Transport	921.2	663.9
Energy and Utilities	482.2	427.5
Financial Services	564.7	485.0
Telecoms and Media	232.1	225.0
Continuing operations	3,073.2	2,420.7
Discontinued operation	86.6	244.5
	3,159.8	2,665.2

The following table provides an analysis of segment assets and capital expenditure by vertical market for all operations:

	Segment assets		Capital expenditure	
	2007 £'m	2006 £'m	2007 £'m	2006 £'m
Public Sector	795.7	743.9	9.0	6.5
Industry, Distribution and Transport	1,058.6	1,055.5	18.8	10.5
Energy and Utilities	447.5	426.1	14.2	15.3
Financial Services	560.0	527.8	9.4	9.6
Telecoms and Media	272.5	293.6	4.7	5.7
Continuing operations	3,134.3	3,046.9	56.1	47.6
Discontinued operation	–	157.4	0.2	6.1
	3,134.3	3,204.3	56.3	53.7

► **Note 5** Segment information (continued)

Analysis of revenue by category

	2007 £'m	Restated 2006 £'m
CONTINUING OPERATIONS:		
Sales of goods	138.6	138.4
Revenue from services	2,934.6	2,282.3
	3,073.2	2,420.7
DISCONTINUED OPERATION:		
Sales of goods	30.4	116.1
Revenue from services	56.2	128.4
	86.6	244.5
	3,159.8	2,665.2

Revenue from continuing operations above included £1,355.2 million which related to contracts accounted for under the percentage-of-completion method (2006: £1,229.3 million). All revenue from the discontinued operation related to contracts accounted for under the percentage-of-completion method.

► **Note 6** Net operating costs

	2007 £'m	Restated 2006 £'m
Amortisation	84.0	44.1
Depreciation	38.7	29.2
Employee benefits expense	1,705.5	1,287.6
Legal and professional fees	47.1	29.7
Material and other external charges	841.0	673.2
Property costs	108.5	101.9
External sales and marketing costs	24.9	19.4
Disposal of businesses	9.7	–
Reduction in retirement benefit obligation due to harmonisation of plan rules	–	(9.0)
Restructuring and integration costs	13.5	32.9
Other operating expenses	90.6	69.8
Continuing operations	2,963.5	2,278.8
Discontinued operation	109.2	230.6
	3,072.7	2,509.4

The discontinued operation is described further in Note 14.

► **Note 7** Exceptional items

The exceptional items recognised within operating profit were as follows:

	2007 £'m	2006 £'m
Restructuring and integration costs	(13.5)	(32.9)
Disposal of businesses	(9.7)	–
Reduction in retirement benefit obligation due to harmonisation of plan rules	–	9.0
	(23.2)	(23.9)

The Group incurred a charge of £13.5 million relating to the restructuring of the business in the Nordics following the acquisition of WM-data AB. The restructuring comprised costs associated with offshoring activities and IT infrastructure.

During 2007, the Group incurred a loss on the disposal of several businesses of £9.7 million. An impairment loss of £2.6 million was included in the loss on the disposal of businesses. The impairment loss related to buildings previously occupied by the graphic services business in Portugal prior to the disposal of this business. The disposals are described further in Note 35.

In 2006, the Group incurred a charge of £32.9 million mainly relating to the restructuring of the businesses in France and Germany following the acquisition of Unilog and the closure of a building in the United States of America. The restructuring comprised a reduction in headcount, vacated property and other measures to reduce the cost base. The Group also harmonised the cash commutation rates used in the CMG UK pension scheme across the entire plan membership. The effect of applying the new cash commutation rates was a reduction in the defined benefit liability of £9.0 million, which was recognised in full as an exceptional item.

► **Note 8** Adjusted operating profit

Adjusted operating profit excludes the results of discontinued operations, exceptional items and amortisation of intangible assets initially recognised at fair value in a business combination, whenever such items occur. Adjusted operating profit is not defined under IFRSs and has been shown as the Directors consider this to be helpful for a better understanding of the performance of the Group's underlying business. It may not be comparable with similarly titled profit measurements reported by other companies and is not intended to be a substitute for, or superior to, IFRSs measures of profit.

	2007 £'m	Restated 2006 £'m
Operating profit	109.7	141.9
Exceptional items	23.2	23.9
Amortisation of intangible assets initially recognised on acquisition	74.7	37.6
Adjusted operating profit	207.6	203.4

Adjusted operating profit analysis per geographical segment was as follows:

	2007			Adjusted operating profit
	Operating profit £'m	Exceptional items £'m	Amortisation of intangibles* £'m	£'m
Nordics	13.4	13.2	50.1	76.7
United Kingdom	30.5	–	–	30.5
France	20.2	–	20.6	40.8
Netherlands	47.3	(4.4)	–	42.9
Germany	5.4	0.1	2.6	8.1
International	(7.1)	14.3	1.4	8.6
	109.7	23.2	74.7	207.6

* Amortisation of intangible assets initially recognised on acquisition.

	2006			Adjusted operating profit
	Operating profit £'m	Exceptional items £'m	Amortisation of intangibles* £'m	£'m
Nordics	4.8	1.1	11.0	16.9
United Kingdom	86.8	(9.0)	–	77.8
France	13.0	11.2	22.6	46.8
Netherlands	44.2	–	–	44.2
Germany	(19.5)	15.5	2.6	(1.4)
International	12.6	5.1	1.4	19.1
	141.9	23.9	37.6	203.4

* Amortisation of intangible assets initially recognised on acquisition.

► Note 9 Employees

	Year end		Average	
	2007	2006	2007	2006
	Number	Number	Number	Number
Nordics	9,420	10,076	9,837	2,567
United Kingdom	5,655	6,073	5,797	6,083
France	9,057	8,563	8,725	8,301
Netherlands	6,035	5,829	6,136	5,784
Germany	2,081	2,059	2,097	2,168
International	6,492	6,189	6,443	5,848
Continuing operations	38,740	38,789	39,035	30,751
Discontinued operation	–	1,694	781	1,674
	38,740	40,483	39,816	32,425

The employee benefit expense for the year amounted to:

	2007	Restated 2006
	£'m	£'m
Salaries and short-term employee benefits	1,320.7	1,009.0
Social security costs	267.2	198.3
Pension costs (Note 38)	109.1	70.1
Share-based payments (Note 37)	8.5	9.3
Continuing operations	1,705.5	1,286.7
Discontinued operation	40.0	86.9
	1,745.5	1,373.6

The discontinued operation is described further in Note 14.

Employee benefit expense of £4.3 million (2006: £19.8 million) has not been included in the table above but was included within the £13.5 million (2006: £32.9 million) charge for restructuring and integration costs in Note 7 above. The £9.0 million gain reported in exceptional items in 2006 relating to the retirement benefit obligation (see Note 7), was not included in the £70.1 million of pension costs in 2006 in the table above.

► Note 10 Finance costs

	2007	Restated 2006
	£'m	£'m
Finance leases	0.3	0.3
Bank loans and overdrafts	28.6	21.9
Convertible bonds	6.0	6.2
Retirement benefit schemes	–	0.5
Financing fair value remeasurements	–	2.9
Other	2.9	2.5
Continuing operations	37.8	34.3
Discontinued operation	0.2	1.6
	38.0	35.9

The discontinued operation is described further in Note 14.

► **Note 11** Finance income

	2007 £'m	Restated 2006 £'m
Bank interest	3.6	2.2
Unwinding of discount on trade receivables	3.0	3.6
Retirement benefit schemes	0.7	–
Financing fair value remeasurements	1.6	–
Other	2.1	2.9
Continuing operations	11.0	8.7
Discontinued operation	0.2	0.5
	11.2	9.2

The discontinued operation is described further in Note 14.

► **Note 12** Profit before tax

The following items have been included in arriving at profit before tax from continuing operations:

	2007 £'m	Restated 2006 £'m
Loss on disposal of non-current assets	2.1	2.8
Research and development expenditure	0.3	0.2
Trade receivables impairment	1.0	0.1
Exchange losses	0.3	1.6

The Group received a Regional Selective Assistance grant from the Welsh Assembly in February 2004 to aid with the development of the Group's outsourcing facilities at Bridgend, Wales. The Group did not receive any cash during the year (2006: £nil). During the year ended 31 December 2007, £0.5 million (2006: £0.5 million) was credited in arriving at profit before tax.

During 2007 the Group did not receive any cash (2006: £0.5 million) from the European Social Fund to aid with creating new employment in the Netherlands operation. During the year ended 31 December 2007, £1.4 million (2006: £1.7 million) was credited in arriving at profit before tax.

The Group also participates in the BSIK programme (Act Subsidy Investment Knowledge Infrastructure) sponsored by a consortium of five Dutch ministries that give support to the public and industry for related research projects. Under this programme the Group received £0.7 million during the year (2006: £0.3 million) that was credited in arriving at profit before tax.

Auditors' remuneration

The following table shows an analysis of fees payable to PricewaterhouseCoopers LLP, the Group's auditors:

	2007 £'m	2006 £'m
Audit services		
Fees payable to the Company's auditor for the audit of the parent Company and consolidated Financial statements	0.9	0.9
Non-audit services		
Fees payable to the Company's auditor and its associates for other services		
– audit of Financial statements of subsidiaries, pursuant to legislation	1.7	1.7
– other services pursuant to such legislation	0.3	1.5
– tax services	0.4	0.5
– all other services	0.2	0.1
Total auditors' remuneration from continuing and discontinued operations	3.5	4.7

Fees for other services pursuant to such legislation for the year ended 31 December 2006 included £1.1 million which were incurred in connection with the acquisition of WM-data and were not charged to the income statement but comprised part of the acquisition costs of WM-data.

► **Note 13** Taxation

	2007 £'m	Restated 2006 £'m
CURRENT TAX:		
UK corporation tax	(3.8)	17.2
Overseas tax	50.5	28.4
	46.7	45.6
DEFERRED TAX:		
UK corporation tax	1.8	2.4
Overseas tax	(43.1)	(16.8)
	(41.3)	(14.4)
Continuing operations	5.4	31.2
Discontinued operation	7.5	9.1
	12.9	40.3

The effective tax rate on continuing operations for the year, before the share of post-tax profits from associates, exceptional items and amortisation of intangible assets initially recognised on acquisition, was 17.6% (2006: 25.4%), of which a credit of £0.4 million (2006: charge of £19.6 million) related to the United Kingdom. The effective tax rate for 2007 was lower than 2006 due to the use of unrecognised losses brought forward.

The effective tax rate on exceptional items was 9.5% (2006: 7.1%) and the effective tax rate on amortisation of intangible assets initially recognised on acquisition was 32.4% (2006: 32.7%).

The tax charge from continuing operations is lower than the standard rate of corporation tax in the UK applied to profit before tax.

The differences are explained below.

	2007 £'m	Restated 2006 £'m
Profit before tax	84.1	116.6
Less: share of post-tax profits from associates	(1.2)	(0.3)
Profit before tax excluding share of post-tax profits from associates	82.9	116.3
Tax at the UK corporation tax rate of 30% (2006: 30%)	24.9	34.9
Adjustments in respect of previous years	(7.7)	(7.0)
Adjustment for foreign tax rates	2.9	2.0
Tax loss utilisation	(9.9)	(5.5)
Income not taxable	(7.6)	(3.2)
Deferred tax assets not recognised	2.8	10.0
Tax charge from continuing operations	5.4	31.2

In addition to the amounts charged to the income statement, a deferred tax charge of £nil (2006: £4.5 million) relating to retirement benefit schemes, a deferred tax credit relating to items transferred to the income statement on settlement of £0.6 million in 2006 and a deferred tax charge of £0.1 million (2006: £0.4 million) relating to share-based payment arrangements were recognised directly in equity. In the prior year a deferred tax credit of £0.6 million relating to items transferred to the income statement was also recognised in equity.

The current tax related to exceptional items for the year ended 31 December 2007 was a tax credit of £2.2 million (2006: £1.7 million).

The reduction in the statutory corporation tax rate in the UK from 30% to 28% from 1 April 2008 was reflected in calculating the UK deferred tax assets and liabilities. The effect on the results for the year ended 31 December 2007 was an additional tax charge of £0.7 million.

► **Note 14** Discontinued operation

The Group completed its disposal of the Telecoms Products business to an investment consortium led by Atlantic Bridge Ventures on 18 June 2007 for £265.0 million. The transaction reflects the Group's strategic focus on developing as a major international IT and business services company.

Analysis of profit from discontinued operation

	2007 £'m	2006 £'m
Revenue	86.6	244.5
Net operating costs	(109.2)	(230.6)
Operating (loss)/profit	(22.6)	13.9
Finance costs (net)	–	(1.1)
Taxation	2.3	(9.1)
(Loss)/profit for the year from Telecoms Products	(20.3)	3.7
Gain recognised on disposal of Telecoms Products business	119.5	–
Taxation	(9.8)	–
Profit from discontinued operation	89.4	3.7

The consolidated income statement for the year ended 31 December 2006, was restated to show the Telecoms Products business as a discontinued operation to allow a more meaningful comparison with the current period, as required by IFRS 5 'Non-current assets held for sale and discontinued operations'.

► **Note 14** Discontinued operation (continued)

The net assets of the Telecoms Products business on the date of disposal were as follows:

	£'m
Goodwill	32.0
Other intangible assets	4.1
Property, plant and equipment	5.8
Trade and other receivables	101.4
Cash and cash equivalents	38.0
Current tax	0.5
Trade and other payables	(91.2)
Deferred tax	(3.5)
Provisions	(1.4)
Net assets disposed of	85.7
Total consideration	265.0
Foreign exchange differences recycled from equity	(4.1)
Disposal costs	(55.7)
Profit on disposal	119.5
Cash consideration received	264.8
Cash and cash equivalents disposed of	(38.0)
Net cash inflow arising on disposal	226.8

The total consideration of £265.0 million comprised cash of £264.8 million and other assets of £0.2 million. Disposal costs mainly included expenses related to employee redundancies, vacant property provisions, legal and advisory fees and provisions against trade and other receivables.

The net operating costs for the discontinued operation were as follows:

	2007 £'m	2006 £'m
Amortisation	0.1	1.9
Depreciation	1.4	3.5
Employee benefits expense	40.0	86.0
Legal and professional fees	1.6	2.7
Materials and other external charges	42.0	104.9
Property costs	14.7	12.5
External sales and marketing costs	1.6	3.7
Other operating expenses	7.8	15.4
	109.2	230.6

The employee benefit expense for the discontinued operation amounted to:

	2007 £'m	2006 £'m
Salaries and short-term employee benefits	33.1	73.1
Social security costs	4.7	9.6
Pension costs (Note 38)	1.6	3.3
Share-based payments (Note 37)	0.6	0.9
	40.0	86.9

The finance costs for the discontinued operation were as follows:

	2007 £'m	2006 £'m
Bank loans and overdrafts	0.1	1.6
Other	0.1	–
	0.2	1.6

The finance income for the discontinued operation was as follows:

	2007 £'m	2006 £'m
Bank interest	0.1	0.2
Other	0.1	0.3
	0.2	0.5

Included in profit before tax from the discontinued operation was research and development expenditure of £14.7 million (2006: £28.7 million).

The taxation charge for the discontinued operation was as follows:

	2007 £'m	2006 £'m
CURRENT TAX:		
UK corporation tax	0.2	4.0
Overseas tax	8.6	3.2
	8.8	7.2
DEFERRED TAX:		
UK corporation tax	0.1	–
Overseas tax	(1.4)	1.9
	(1.3)	1.9
	7.5	9.1

► Note 15 Dividends

The Directors are proposing a final dividend in respect of the year ended 31 December 2007 of 3.50 pence per share, which would reduce shareholders' funds by approximately £50.5 million. The proposed dividend is subject to approval at the annual general meeting on 14 May 2008 and has not been recognised as a liability in these Financial statements. The final dividend will be paid on 15 May 2008 to shareholders listed on the share register on 18 April 2008.

The amounts recognised as distributions to equity holders were as follows:

	2007 p/share	2006 p/share	2007 £'m	2006 £'m
Interim dividend, relating to 2007/2006	2.30	2.20	34.0	24.9
Final dividend, relating to 2006/2005	3.40	3.20	51.9	36.2
	5.70	5.40	85.9	61.1

Dividends payable to employee share ownership trusts are excluded from the amounts recognised as distributions in the table above.

► **Note 16** Earnings per share

	2007		
	Earnings £'m	Weighted average number of shares million	Earnings per share pence
Earnings per share from continuing operations			
Profit for the year from continuing operations	78.7		
Minority interests	1.8		
Earnings attributable to ordinary shareholders	80.5	1,494.6	5.4
Basic EPS	80.5	1,494.6	5.4
Effect of share options and share awards	–	20.1	(0.1)
Diluted EPS	80.5	1,514.7	5.3
Adjusted earnings per share from continuing operations			
Earnings attributable to ordinary shareholders	80.5	1,494.6	5.4
ADD BACK/(DEDUCT):			
Exceptional items, net of tax	21.0	–	1.4
Mark-to-market gain on convertible bonds designated at fair value through profit or loss, net of tax	(0.2)	–	–
Amortisation of intangible assets initially recognised on acquisition, net of tax	50.5	–	3.4
Basic adjusted EPS	151.8	1,494.6	10.2
Effect of share options and share awards	–	20.1	(0.2)
Effect of convertible bonds, excluding mark-to-market gain, net of tax	4.2	64.6	(0.1)
Diluted adjusted EPS	156.0	1,579.3	9.9

		2007	
	Earnings	Weighted average number of shares	Earnings per share
	£'m	million	pence
Earnings per share from discontinued operation			
Earnings attributable to ordinary shareholders	89.4	1,494.6	6.0
Basic EPS	89.4	1,494.6	6.0
Effect of share options and share awards	–	20.1	(0.1)
Diluted EPS	89.4	1,514.7	5.9

► **Note 16** Earnings per share (continued)

2007			
	Earnings £'m	Weighted average number of shares million	Earnings per share pence
Earnings per share from total operations			
Earnings attributable to ordinary shareholders	169.9	1,494.6	11.4
Basic EPS	169.9	1,494.6	11.4
Effect of share options and share awards	–	20.1	(0.2)
Diluted EPS	169.9	1,514.7	11.2
Restated 2006			
	Earnings £'m	Weighted average number of shares million	Earnings per share pence
Earnings per share from continuing operations			
Profit for the year from continuing operations	85.4		
Minority interests	(7.1)		
Earnings attributable to ordinary shareholders	78.3	1,215.6	6.4
Basic EPS	78.3	1,215.6	6.4
Effect of share options and share awards	–	18.6	(0.1)
Diluted EPS	78.3	1,234.2	6.3
Adjusted earnings per share from continuing operations			
Earnings attributable to ordinary shareholders	78.3	1,215.6	6.4
ADD BACK:			
Exceptional items, net of tax	22.2	–	1.9
Mark-to-market loss on convertible bonds designated at fair value through profit or loss, net of tax	0.1	–	–
Amortisation of intangible assets initially recognised on acquisition, net of tax	25.3	–	2.1
Basic adjusted EPS	125.9	1,215.6	10.4
Effect of share options and share awards	–	18.6	(0.2)
Effect of convertible bonds, excluding mark-to-market loss, net of tax	4.2	64.6	(0.2)
Diluted adjusted EPS	130.1	1,298.8	10.0
Restated 2006			
	Earnings £'m	Weighted average number of shares million	Earnings per share pence
Earnings per share from discontinued operation			
Earnings attributable to ordinary shareholders	3.7	1,215.6	0.3
Basic EPS	3.7	1,215.6	0.3
Effect of share options and share awards	–	18.6	–
Diluted EPS	3.7	1,234.2	0.3
2006			
	Earnings £'m	Weighted average number of shares million	Earnings per share pence
Earnings per share from total operations			
Earnings attributable to ordinary shareholders	82.0	1,215.6	6.7
Basic EPS	82.0	1,215.6	6.7
Effect of share options and share awards	–	18.6	(0.1)
Diluted EPS	82.0	1,234.2	6.6

► **Note 16 Earnings per share (continued)**

During the period 25 June 2007 to 2 November 2007, the Company purchased and subsequently cancelled 83.6 million ordinary shares at an average price of £1.55, with a nominal value of £8.4 million, for consideration of £130.8 million. Consideration included stamp duty and commission of £0.8 million.

Adjusted earnings per share, both basic and diluted, have been shown as the Directors consider this to be helpful for a better understanding of the performance of the Group's underlying business. The earnings measure used in adjusted earnings per share excludes, whenever such items occur: the results of discontinued operations; exceptional items; mark-to-market gains or losses on financial assets and financial liabilities designated at fair value through profit or loss;

and amortisation of intangible assets initially recognised at fair value in a business combination. All items adjusted are net of tax where applicable.

The weighted average number of shares excludes the shares held by employee share ownership plan (ESOP) trusts, which are treated as cancelled.

The convertible bonds were not included in the calculation of diluted earnings per share from continuing operations for the year ended 31 December 2007 and 31 December 2006 as they were anti-dilutive; however, the convertible bonds were dilutive for the purposes of calculating adjusted diluted earnings per share from continuing operations for the year ended 31 December 2007 and 31 December 2006.

► **Note 17 Goodwill**

	2007 £'m	2006 £'m
Cost and net book amount		
At 1 January	1,552.1	385.4
Additions during the year	12.3	1,167.0
Disposals during the year	(59.6)	–
Exchange differences	99.2	(0.3)
At 31 December	1,604.0	1,552.1

The additions during the year ended 31 December 2007 related principally to the Group's acquisition of Siemens Business Systems AS in Norway (Note 36).

Goodwill impairment tests

Goodwill acquired in a business combination is allocated to one or more cash-generating units (CGUs). CGUs represent the operations of a country or, in more material operations, divisions within a country. The following table shows the allocation of the carrying value of goodwill at the balance sheet date by geographical business segment:

	2007 £'m	2006 £'m
Nordics	721.3	686.9
United Kingdom	167.6	167.6
France	496.8	456.5
Netherlands	16.0	14.7
Germany	104.4	95.3
International	97.9	99.1
Continuing operations	1,604.0	1,520.1
Discontinued operation	–	32.0
	1,604.0	1,552.1

The Group conducts annual impairment tests on the carrying value of goodwill, based on the recoverable amount of CGUs to which goodwill has been allocated. At 31 December 2007, the recoverable amounts of CGUs were determined from value in use calculations. The key assumptions in the value in use calculations were the discount rate applied, the long-term operating margin and the long-term growth rate of net operating cash flows.

In all cases the approved budget for the following financial year formed the basis for the cash flow projections for a CGU. The cash flow projections in the four financial years following the budget year reflected management's expectations of the medium-term operating performance of the CGU and growth prospects in the CGU's market.

The discount rate applied to a CGU represents a pre-tax rate that reflects market assessment of the time value of money at the balance sheet date and the risks specific to the CGU. The discount rates applied to the CGUs were in the range of 9.5% (2006: 10.1%) to 15.4% (2006: 16.4%).

The discount rates applied to the most significant CGUs were as follows:

	2007 %	2006 %
Nordics*	9.9	–
United Kingdom*	12.6	13.4
France	12.3	12.6

* Weighted average discount rate applied to CGUs in the Nordics and the United Kingdom.

The long-term operating margin assumed for a CGU's operations is primarily based on past performance. The long-term operating margin refers to the margin on adjusted operating profit as described in Note 8. For some CGUs, those for which management has strong reason to believe that past operating margins are not indicative of future operating margins, expected future improvements from sustainable operating cost savings are also included in management's assessment of the long-term operating margin. The long-term operating margins applied to CGUs were in the range of 5.0% (2006: 5.0%) to 10.0% (2006: 10.0%).

The long-term operating margins assumed for the most significant CGUs were as follows:

	2007 %	2006 %
Nordics*	10.0	–
United Kingdom*	10.0	10.0
France	10.0	10.0

* Weighted average long-term operating margin applied to CGUs in the Nordics and the United Kingdom.

► **Note 17** Goodwill (continued)

Long-term growth rates of net operating cash flows are assumed equal to the long-term growth rate in the gross domestic product of the country in which the CGUs' operations are undertaken, and were in the range of 1.7% (2006: 1.4%) to 5.0% (2006: 4.9%).

The long-term growth rates of net operating cash flows assumed for the most significant CGUs were as follows:

	2007 %	2006 %
Nordics	2.5	–
United Kingdom	2.4	2.4
France	3.1	3.1

No goodwill impairment charge was recognised in the year ended 31 December 2007 (2006: £nil).

► **Note 18** Other intangible assets

	Purchased computer software £'m	Development costs £'m	Brand names £'m	Customer contracts/ relationships £'m	Software products £'m	Total £'m
Cost						
At 1 January 2006	21.9	17.7	4.0	6.1	–	49.7
Additions	8.3	11.3	–	–	–	19.6
Acquisition of subsidiary	3.3	1.5	100.0	278.4	31.9	415.1
Disposals	(5.0)	(0.8)	–	–	–	(5.8)
Exchange differences	(0.4)	(0.4)	0.8	2.4	0.4	2.8
At 1 January 2007	28.1	29.3	104.8	286.9	32.3	481.4
Additions	9.6	6.7	–	–	–	16.3
Acquisition of subsidiaries/businesses	–	–	–	1.9	–	1.9
Disposals of subsidiaries/businesses	(3.0)	(15.6)	(4.0)	(6.6)	–	(29.2)
Disposals	(1.1)	(0.2)	–	–	–	(1.3)
Exchange differences	3.0	0.8	7.0	19.2	2.4	32.4
At 31 December 2007	36.6	21.0	107.8	301.4	34.7	501.5
Accumulated amortisation						
At 1 January 2006	13.4	10.0	0.5	0.5	–	24.4
Charge for the year	5.8	2.6	13.1	22.9	1.6	46.0
Disposals	(3.2)	(0.5)	–	–	–	(3.7)
Exchange differences	(0.2)	(0.1)	–	(0.1)	–	(0.4)
At 1 January 2007	15.8	12.0	13.6	23.3	1.6	66.3
Charge for the year	6.4	3.0	28.6	39.8	6.3	84.1
Disposals of subsidiaries/businesses	(2.7)	(11.4)	(0.8)	(0.4)	–	(15.3)
Disposals	(0.9)	(0.2)	–	–	–	(1.1)
Exchange differences	1.6	0.3	2.8	4.2	0.6	9.5
At 31 December 2007	20.2	3.7	44.2	66.9	8.5	143.5
Net carrying amount						
At 31 December 2007	16.4	17.3	63.6	234.5	26.2	358.0
At 31 December 2006	12.3	17.3	91.2	263.6	30.7	415.1

Purchased computer software represented assets bought from third parties, whilst development costs represented internally generated intangible assets. Brand names, customer contracts/relationships and software products represented assets recognised as part of a business combination.

The net book values of individually material intangible assets and their remaining useful life as at 31 December 2007 were as follows:

	Carrying value £'m	Remaining useful life Years
WM-data brand name	36.7	1.8
Unilog brand name	25.7	2.3

► **Note 19** Property, plant and equipment

	Freehold land and buildings £'m	Leasehold property and improvements £'m	Equipment and plant £'m	Total £'m
Cost				
At 1 January 2006	19.3	55.9	203.4	278.6
Additions	–	4.4	29.7	34.1
Acquisition of subsidiary	5.3	–	30.9	36.2
Disposals	(0.5)	(0.6)	(22.5)	(23.6)
Exchange differences	(0.1)	(0.7)	(4.0)	(4.8)
At 1 January 2007	24.0	59.0	237.5	320.5
Additions	0.1	3.1	36.8	40.0
Acquisition of subsidiaries	–	–	3.9	3.9
Disposals of subsidiaries/businesses	(0.1)	(1.5)	(46.5)	(48.1)
Disposals	(1.8)	(4.8)	(32.5)	(39.1)
Exchange differences	1.0	1.9	16.3	19.2
At 31 December 2007	23.2	57.7	215.5	296.4
Accumulated depreciation				
At 1 January 2006	0.7	24.6	150.8	176.1
Charge for the year	0.1	5.1	27.5	32.7
Disposals	(0.2)	(0.3)	(21.0)	(21.5)
Exchange differences	–	(0.3)	(3.1)	(3.4)
At 1 January 2007	0.6	29.1	154.2	183.9
Charge for the year	0.7	5.8	33.6	40.1
Disposals of subsidiaries/businesses	–	(1.7)	(38.2)	(39.9)
Disposals	(0.1)	(4.1)	(30.1)	(34.3)
Impairment	2.6	–	–	2.6
Exchange differences	0.2	1.0	10.7	11.9
At 31 December 2007	4.0	30.1	130.2	164.3
Net carrying amount				
At 31 December 2007	19.2	27.6	85.3	132.1
At 31 December 2006	23.4	29.9	83.3	136.6

The impairment of £2.6 million in the table above related to buildings previously occupied by the graphic services business in Portugal prior to the disposal of this business. The disposals are described further in Note 35.

Equipment and plant included assets held under finance leases with a net book value of £3.4 million (2006: £5.2 million). Additions to equipment and plant during the year amounting to £4.7 million (2006: £3.1 million) were financed by new finance leases.

► **Note 20** Investments in associates

The carrying value of the Group's investments in associates at 31 December is shown below:

	2007 £'m	2006 £'m
Associates	2.4	6.0
Investments in associates		£'m
At 1 January 2007		6.0
Increase in stake to subsidiary		(2.0)
Disposals		(2.3)
Share of post-tax profits of associates		1.2
Dividends received		(0.7)
Exchange differences		0.2
At 31 December 2007		2.4

Summarised information in respect of associates at 31 December is provided below on a 100% interest basis and, where relevant, after provisional fair value adjustments.

	2007 £'m	2006 £'m
Assets	11.0	27.8
Liabilities	(4.7)	(15.7)
Revenue	32.2	13.1
Net profit	2.3	0.5

► **Note 21** Non-current financial assets

	2007 £'m	2006 £'m
Insurance contracts held to fund defined benefit pension and life assurance arrangements (Note 38)	10.1	8.6
Other financial assets	0.9	1.5
	11.0	10.1

► **Note 22** Inventories

	2007 £'m	2006 £'m
Computer equipment not allocated to a customer contract	1.2	0.5
Materials used in document printing and finishing	0.2	2.4
	1.4	2.9

The Directors estimate that the carrying value of inventories approximated their fair value.

► **Note 23** Trade and other receivables

	2007 £'m	2006 £'m
Trade receivables	619.4	626.2
Less: provision for impairment	(6.1)	(8.1)
Trade receivables – net	613.3	618.1
Amounts recoverable on contracts	219.9	297.7
Prepayments and accrued income	148.5	123.2
Derivative financial instruments	5.4	1.4
Other receivables	34.1	29.8
	1,021.2	1,070.2

Amounts recoverable on contracts included amounts due for settlement after more than one year of £42.4 million at 31 December 2007 (2006: £40.6 million).

Contracts accounted for under the percentage-of-completion method

Contracts in progress at the balance sheet date:	2007 £'m	2006 £'m
Contract costs incurred plus recognised profits less recognised losses to date	4,349.7	3,823.8
Less: progress billings	(4,217.5)	(3,636.1)
	132.2	187.7
Recognised as:		
Amounts due from contract customers included in trade and other receivables	219.9	297.7
Amounts due to contract customers included in trade and other payables	(87.7)	(110.0)
	132.2	187.7

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables and amounts recoverable on contracts. The Group has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties. The Directors estimate that the carrying value of financial assets within trade and other receivables approximated their fair value.

► **Note 23** Trade and other receivables (continued)

The Group believes the carrying amounts of the Group's trade and other receivables by geographical location gives a fair presentation of the credit quality of such assets as disclosed below:

	2007 £'m	2006 £'m
Nordics	158.1	164.3
United Kingdom	58.6	55.1
France	192.2	156.0
Netherlands	99.4	113.4
Germany	38.9	33.0
International	66.1	96.3
	613.3	618.1

At 31 December 2007, trade receivables of £160.8 million (2006: £155.1 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The amounts are still considered recoverable. The average age of these receivables was 54 days (2006: 52 days).

Movements in the Group provision for impairment of trade receivables were as follows:

	2007 £'m	2006 £'m
At 1 January	8.1	7.0
Provision for receivables impairment	2.7	2.7
Acquisitions of subsidiaries	–	2.6
Disposals of subsidiaries/businesses	(0.4)	–
Receivables written off during the year as uncollectable	(3.1)	(1.9)
Unused amounts reversed	(1.6)	(2.2)
Foreign exchange	0.4	(0.1)
At 31 December	6.1	8.1

In determining the recoverability of a trade receivable, the Group considers the ageing of each debtor and any change in the circumstances of the individual debtors. The Directors believe that there is no further provision required in excess of the allowance for doubtful debts.

The creation and release of provision for impaired receivables have been included in net operating costs in the income statement (Note 6). Unwind of discount is included in finance costs in the income statement (Note 10). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

At 31 December 2007, trade receivables of £6.9 million (2006: £8.1 million) were either partially or fully impaired. The ageing of these receivables was as follows:

	2007 £'m	2006 £'m
Less than three months	0.2	0.2
Three to six months	0.5	0.8
Over six months	6.2	7.1
	6.9	8.1

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group held no collateral as security.

► **Note 24** Trade and other payables

	2007 £'m	2006 £'m
Trade payables	166.5	188.9
Payments received on account on contracts	87.7	110.0
Accruals	181.3	161.5
Social security and other taxes	197.1	186.1
Employee benefit liabilities	122.1	119.8
Derivative financial instruments	2.5	0.4
Other payables	111.0	119.7
	868.2	886.4

The Directors estimate that the carrying value of trade and other payables approximated their fair value.

► Note 25 Borrowings

	2007 £'m	2006 £'m
Current		
Bank overdrafts	9.1	26.4
Bank loans	84.8	1.6
2.875% 2008 convertible bonds	220.0	202.4
Finance lease obligations	2.4	4.1
Other borrowings	0.9	1.0
	317.2	235.5
PRESENTED AS:		
Convertible debt	220.0	202.4
Other borrowings	97.2	33.1
	317.2	235.5
Non-current		
Bank loans	269.9	496.4
Finance lease obligations	4.8	2.4
Other borrowings	–	0.1
	274.7	498.9

Bank loans

At 31 December 2007, the Group had the following unsecured principal bank facilities:

- a £330 million multi-currency, syndicated revolving credit facility maturing on 19 September 2010. At 31 December 2007, £25.0 million was drawn down under the facility (2006: £96.5 million) and carried an interest rate of 0.80% (2006: 0.95%) over LIBOR.
- a €348 million (£255.9 million) term loan maturing on 19 September 2010. At 31 December 2007 and 31 December 2006, the term loan was drawn down in full and carried an interest rate of 0.85% over LIBOR (2006: 1.0% over LIBOR).
- a £150 million syndicated revolving credit facility maturing on 19 November 2008, with the right to extend the facility to 19 November 2010. The facility was entered into on 20 August 2006 and amended on 19 November 2007. At 31 December 2007, SEK650 million (£50.5 million) was drawn down under the facility (2006: £153.7 million) and carried an interest rate of 0.80% over LIBOR (2006: 0.95% over LIBOR).

The obligations of the borrowers under the £330 million facility and €348 million bank loan are guaranteed by the principal UK and Dutch trading subsidiaries, LogicaCMG UK Limited and LogicaCMG Nederland B.V. The £150 million facility is guaranteed by LogicaCMG UK Limited.

Convertible bonds

The convertible bonds bear a fixed coupon rate of 2.875% per annum, payable annually in arrears, and were issued at par value of €303.4 million on 19 September 2003. Each €1,000 principal amount of a bond is convertible into one 2.875% exchangeable redeemable preference share of the issuer, LogicaCMG (Jersey) Limited, with paid-up value of €1,000 that will, in turn, be exchangeable immediately for ordinary shares of LogicaCMG plc.

The bonds can be converted by the holders at any time between 29 October 2003 and up to 14 days prior to 19 September 2008. The number of ordinary shares into which the bonds are convertible is determined by translating the principal amount into pounds sterling at a fixed exchange rate of €1.44862 to £1 and then dividing by the prevailing exchange price. The exchange price is the price at which the sterling-equivalent par value of the 2.875% exchangeable redeemable preference shares is converted into ordinary shares of the Company. The initial exchange price on issue was 372.53 pence per share. Following the rights issue in November 2005, the exchange price was revised to 324.0 pence per share to reflect the bonus element of the rights issue.

The bond issuer may, at its option, redeem the bonds at any time from 3 October 2006 if the Company's share price is greater than 140% of the prevailing exchange price on at least 20 dealing days during a period of 30 consecutive dealing days, or, at any time, if 85% or more of the principal amount of the bonds have been previously converted or purchased and cancelled. At 31 December 2007, the bond holders held rights over the allotment of 64,635,376 (2006: 64,635,376) ordinary shares of LogicaCMG plc.

The change in underlying fair value not attributable to changes in 12-month EURIBOR was an increase of £3.9 million (2006: £2.8 million). At maturity, the Group would be contractually required to repay €303.4 million (£223.1 million) compared to a fair value on 31 December 2007 of €299.2 million (£220.0 million).

Finance lease obligations

The minimum lease payments under finance leases, and their present value, fell due as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2007 £'m	2006 £'m	2007 £'m	2006 £'m
Within one year	3.6	4.4	2.4	4.1
In two to five years	6.2	2.9	4.8	2.4
	9.8	7.3	7.2	6.5
Future finance charges	(2.6)	(0.8)		
Present value of lease obligations	7.2	6.5		

The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

► **Note 25** Borrowings (continued)**All borrowings**

Bank loans and overdrafts, loan notes and other borrowings bear floating rates of interest based on LIBOR or foreign equivalents appropriate to the country in which the borrowing is incurred, and thus expose the Group to cash flow interest rate risk. The convertible bonds and finance lease obligations bear fixed rates of interest and therefore expose the Group to fair value interest rate risk.

All borrowings are denominated in the borrowing entity's functional currency except for the convertible bonds and certain amounts drawn down under the revolving credit facility. Borrowings not denominated in the functional currency of the borrowing company are designated as hedges of net investments in foreign operations (see Note 26) and therefore only expose the Group to income statement foreign currency risk to the extent that the hedge is ineffective.

The Directors have estimated the fair value of the Group's borrowings as follows:

	2007 £'m	2006 £'m
Bank overdrafts	9.1	26.4
Bank loans	354.7	501.3
Finance lease obligations	7.0	6.4
Convertible bonds	220.0	202.4
Other borrowings	0.9	1.1
	591.7	737.6

Fair value has been estimated by discounting the cash flows relating to borrowings at the market rate at the balance sheet date or, for the quoted instruments, by reference to the prevailing market price and exchange rate at the balance sheet date.

► **Note 26** Financial instruments**Categories of financial instruments****Assets as per the balance sheet**

Non-current other financial assets (Note 21)
Trade receivables (Note 23)
Cash and cash equivalents
Derivative financial instruments (held for trading)

	2007		
	Assets at fair value through profit and loss £'m	Loans and receivables £'m	Total £'m
	–	0.9	0.9
	–	613.3	613.3
	–	108.7	108.7
	5.4	–	5.4
	5.4	722.9	728.3

Assets as per the balance sheet

Non-current other financial assets (Note 21)
Trade receivables (Note 23)
Cash and cash equivalents
Derivative financial instruments (held for trading)

	2006		
	Assets at fair value through profit and loss £'m	Loans and receivables £'m	Total £'m
	–	1.5	1.5
	–	618.1	618.1
	–	177.3	177.3
	1.4	–	1.4
	1.4	796.9	798.3

Liabilities as per the balance sheet

Convertible bond (designated upon initial recognition)
Trade payables (Note 24)
Accruals (Note 24)
Bank overdrafts (Note 25)
Bank loans (Note 25)
Finance lease obligations (Note 25)
Other borrowings (Note 25)
Derivative financial instruments (held for trading)
Derivative financial instruments

	2007			
	Liabilities at fair value through profit and loss £'m	Derivatives used for hedging £'m	Amortised cost £'m	Total £'m
	220.0	–	–	220.0
	–	–	166.5	166.5
	–	–	181.3	181.3
	–	–	9.1	9.1
	–	–	354.7	354.7
	–	–	7.2	7.2
	–	–	0.9	0.9
	0.9	–	–	0.9
	–	1.6	–	1.6
	220.9	1.6	719.7	942.2

► **Note 26** Financial instruments (continued)

	2006			
	Liabilities at fair value through profit and loss £'m	Derivatives used for hedging £'m	Amortised cost £'m	Total £'m
Liabilities as per the balance sheet				
Convertible bond (designated upon initial recognition)	202.4	–	–	202.4
Trade payables (Note 24)	–	–	188.9	188.9
Accruals (Note 24)	–	–	161.5	161.5
Bank overdrafts (Note 25)	–	–	26.4	26.4
Bank loans (Note 25)	–	–	498.0	498.0
Finance lease obligations (Note 25)	–	–	6.5	6.5
Other borrowings (Note 25)	–	–	1.1	1.1
Derivative financial instruments (held for trading)	0.4	–	–	0.4
	202.8	–	882.4	1,085.2

Financial risk management

The multinational nature of the Group's operations and their financing exposes it to a variety of financial risks. The principal risks that the Group is exposed to are capital risk, foreign currency exchange rate risk, interest rate risk and liquidity risk. The Group's policies with respect to managing those risks in both the current and prior year are set out below. The Group does not undertake any trading or speculative activity in financial instruments.

The Group's treasury function provides a centralised service to the Group for funding and foreign exchange management. The Group's treasury function operates within policies and procedures that are formally approved by the Board, which include strict controls on the use of financial instruments in managing the Group's risks. The policies provide written principles on net debt management, currency mix of debt, central funding liquidity, interest rate risk, foreign currency risk, bonds and guarantees, and cash investment and counterparty limits. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis.

Capital risk management

The Group's policy on capital structure is to keep the ratio of net debt to earnings before interest, tax, depreciation and amortisation below a target level which is reviewed by the Board. The target is comfortably below the covenants contained within the Group's banking facilities.

Foreign exchange risk

The Group has operations in many countries worldwide, exposing the Group to foreign exchange risk on the translation of the income statement and balance sheet of foreign operations into pounds sterling. Operations are also subject to foreign exchange risk from committed transactions denominated in currencies other than their functional currency and, once recognised, the revaluation of foreign currency denominated assets and liabilities.

The translation of the balance sheets of overseas operations has been partially hedged by managing the currency mix of the Group's borrowings. The Group used euro and Swedish krona borrowings to hedge the balance sheet translation of operations with the euro and Swedish krona as their functional currency. The Group does not hedge the foreign exchange risk relating to the translation of the income statements of overseas operations.

To mitigate foreign exchange risk arising from transactions denominated in currencies other than an entity's functional currency, assets and liabilities not denominated in the functional currencies are hedged economically by means of forward contracts. The Group treasury's risk management policy requires all companies in the Group to hedge their material assets and liability exposures in full by using forward contracts. Additionally, where material, the Group hedges its contracted future project cash flows in foreign currencies by using forward contracts. Group treasury is the only entity in the Group allowed to transact external foreign exchange contracts with banks. To ensure compliance with the above policy, subsidiaries will use Group treasury as an internal bank, hedging their material foreign exchange exposures on an inter-company basis. These exposures are then aggregated and netted in Group treasury and the overall position hedged externally.

The foreign exchange exposures for the most significant foreign currencies reported to Group treasury and the related hedging of those exposures against UK pounds at 31 December were as follows:

	2007		
	€'m	USD'm	SEK'm
Reported exposure	(284.8)	45.4	828.0
Forward contracts	285.1	(45.3)	(827.8)
	2006		
	€'m	USD'm	SEK'm
Reported exposure	(313.7)	123.6	(56.8)
Forward contracts	313.7	(123.6)	56.0

► Note 26 Financial instruments (continued)

Positive amounts represented an asset or a forward purchase, whereas negative amounts represented a liability or forward sale.

At 31 December 2007, if the euro, Swedish krona and US dollar rate on forward contracts used to hedge contracted project future cash flows had weakened/strengthened by 10% against the UK pound with all other variables held constant, post-tax profit on these forward contracts would have been (lower)/higher as a result of foreign exchange gains/losses on translation of the euro, Swedish krona and US dollar forward contracts, as follows:

	10% Weakened		10% Strengthened	
	2007 £'m	2006 £'m	2007 £'m	2006 £'m
Project forward contracts				
Euro	(2.1)	(0.4)	2.1	0.4
US dollar	(0.3)	(0.1)	0.3	0.1
Swedish krona	–	–	–	–

Interest rate risk

The Group's policy is to fund its operations through a mixture of retained earnings, equity and debt. Careful consideration is given to the appropriate split of debt and equity to ensure acceptable levels of liquidity and interest rate risk. Interest rate risk is then further managed by holding a portion of the Group's borrowings at fixed rates of interest. At 31 December 2007, the Group had £224.2 million (2006: £208.9 million) of fixed rate borrowings out of total borrowings of £591.9 million (2006: £734.4 million).

If interest rates on floating rate euro-, Swedish krona- and UK pound-denominated borrowings had been 50 basis points higher during the 12 months ended 31 December 2007 and 2006, with all other variables held constant, post-tax profit would have been lower as a result of higher interest expense on those borrowings, as follows:

	2007 £'m	2006 £'m
Borrowings		
Euro	1.2	0.6
Swedish krona	0.7	0.2
UK pound	0.2	0.2

Liquidity risk

The Group's policy is to maintain sufficient headroom to meet its foreseeable financing requirements. Substantial committed facilities are maintained with a syndicate of leading international banks. At 31 December 2007, the Group had committed bank facilities of £735.9 million (2006: £718.8 million) of which £331.4 million (2006: £484.9 million) had been drawn down, giving a headroom of £404.5 million (2006: £233.9 million). The highest amount drawn down on these facilities during 2007 was £636.2 million (2006: £594.5 million).

The table below analyses the Group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet. Except for bank loans, the convertible bonds, and finance lease obligations, balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2007					Total £'m
	On demand or within one year £'m	Between one and two years £'m	Between two and five years £'m	Over five years £'m	Adjustment £'m	
Bank overdrafts	(9.1)	–	–	–	–	(9.1)
Bank loans	(101.6)	(14.4)	(280.1)	–	41.4	(354.7)
2.875% 2008 convertible bonds	(224.3)	–	–	–	4.3	(220.0)
Finance lease obligations	(2.7)	(2.0)	(2.9)	–	0.4	(7.2)
Other borrowings	(0.9)	–	–	–	–	(0.9)
	(338.6)	(16.4)	(283.0)	–	46.1	(591.9)
Trade and other payables excluding derivative financial instruments	(865.7)	–	–	–	–	(865.7)
Net derivative financial instruments	2.9	–	–	–	–	2.9
	(1,201.4)	(16.4)	(283.0)	–	46.1	(1,454.7)

► **Note 26** Financial instruments (continued)

	2006					
	On demand or within one year £'m	Between one and two years £'m	Between two and five years £'m	Over 5 years £'m	Adjustment £'m	Total £'m
Bank overdrafts	(26.4)	–	–	–	–	(26.4)
Bank loans	(22.1)	(171.9)	(368.5)	–	64.5	(498.0)
2.875% 2008 convertible bonds	(212.6)	–	–	–	10.2	(202.4)
Finance lease obligations	(4.4)	(2.6)	(0.3)	–	0.8	(6.5)
Other borrowings	(1.0)	(0.1)	–	–	–	(1.1)
	(266.5)	(174.6)	(368.8)	–	75.5	(734.4)
Trade and other payables excluding derivative financial instruments	(886.0)	–	–	–	–	(886.0)
Net derivative financial instruments	1.0	–	–	–	–	1.0
	(1,151.5)	(174.6)	(368.8)	–	75.5	(1,619.4)

Derivative financial instruments

The following table shows the value and type of derivative financial instruments recognised as separate assets and liabilities in the balance sheet in trade and other receivables and trade and other payables at 31 December:

	2007		2006	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Forward foreign exchange contracts – fair value hedges	5.4	(2.5)	1.4	(0.4)

The principal currencies of forward foreign exchange contracts outstanding at 31 December 2007 were the euro, Swedish krona and the US dollar. The notional amounts outstanding at that date were €266.3 million (buying) (2006: €271.8 million (net buying)), SEK2,722.6 million (net selling) (2006: SEK214.8 million (net selling)) and \$27.0 million (selling) (2006: \$68.8 million (net selling)).

Hedges of net investments in foreign operations

On 1 January 2007, the Group had euro and Swedish krona borrowings which it has designated as a hedge of the net investment in its subsidiaries in eurozone countries and Sweden. The designated borrowings comprised the 2.875% 2008 convertible bonds and the SEK2,058 million bank loan and the Swedish krona drawn down under the Group's £330 million revolving credit facility. During 2007, the Group repaid its Swedish krona borrowings and replaced it with forward exchange contracts for the same value. The fair value of the designated euro borrowings at 31 December 2007 was £220.0 million (2006: £202.4 million) and that of the Swedish krona borrowings/forward contracts was £52.1 million (2006: £250.2 million).

The foreign exchange loss of £27.9 million relating to these borrowings in the year ended 31 December 2007 (2006: £1.3 million) has been recognised directly in the translation reserve. There was no hedging ineffectiveness recognised in the income statement in the year ended 31 December 2007 (2006: £nil).

Cash flow hedges

During the 2006 financial year, a net gain of £2.0 million related to interest rate swaps, that were accounted for as a cash flow hedge, was recycled from equity to the income statement. The interest rate swaps were acquired through the WM-data acquisition and had previously been used by WM-data to hedge floating rate interest payments on its primary bank loans. The interest rate swaps were terminated early, and settled, when the hedged bank debt was re-financed by the Group. At 31 December 2007 and 2006, the Group had no derivative instruments that were part of a cash flow hedge relationship.

► **Note 27** Provisions

	Vacant properties £'m	Restructuring £'m	Other £'m	Total £'m
At 1 January 2007	15.7	13.5	4.8	34.0
Charged in the year	11.5	2.6	6.7	20.8
Utilised in the year	(5.6)	(12.4)	(5.7)	(23.7)
Unused amounts reversed	(2.5)	(0.8)	(0.2)	(3.5)
Unwinding of discount	0.4	–	–	0.4
Disposal of subsidiaries/businesses	(1.4)	–	–	(1.4)
Exchange differences	0.5	0.3	0.6	1.4
At 31 December 2007	18.6	3.2	6.2	28.0

ANALYSED AS:

Current liabilities	9.1
Non-current liabilities	18.9
	28.0

Vacant properties

At 31 December 2007, provisions for vacant properties represented residual lease commitments, together with associated outgoing, for the remaining period on certain property leases, after taking into account sub-tenant arrangements. The property costs provided for are mainly on properties located in the United Kingdom and Sweden. At 31 December 2007, non-current vacant property provisions amounted to £14.0 million of which £10.9 million was payable within five years and the balance thereafter.

Restructuring

At 31 December 2007, the restructuring provision mainly related to the restructuring of the businesses in France and Germany following the acquisition of Unilog and the restructuring in the Nordics following the

acquisition of WM-data. The restructuring programme comprised a reduction in headcount and other measures to reduce the cost base. At 31 December 2007, £2.5 million of the restructuring provision was payable within one year with the remaining balance payable between one and two years.

Other

At 31 December 2007, the other provision mainly related to the value of legal claims brought by ex-employees. At 31 December 2007, £2.0 million of the other provision was payable within one year with the remaining balance payable between one and two years. The timing of the outflows could differ from management's estimates depending on the actual timing of the settlements of the legal claims.

► **Note 28** Deferred tax

	Property, plant and equipment £'m	Intangible assets £'m	Retirement benefits £'m	Tax losses £'m	Goodwill £'m	Other £'m	Total £'m
At 1 January 2006	3.6	(0.4)	13.4	6.1	(35.5)	(7.5)	(20.3)
Credit/(charge) to profit or loss for the year	(3.0)	12.3	(4.0)	5.0	9.9	(7.7)	12.5
(Charge)/credit to equity	–	–	(4.5)	–	–	0.2	(4.3)
Reclassification from current tax	–	–	–	–	–	(0.7)	(0.7)
Acquisition of subsidiary	3.0	(103.6)	1.2	1.3	–	(2.4)	(100.5)
Exchange differences	–	(0.6)	–	(0.2)	–	0.3	(0.5)
At 1 January 2007	3.6	(92.3)	6.1	12.2	(25.6)	(17.8)	(113.8)
(Charge)/credit to profit or loss for the year	(1.1)	24.2	(1.4)	9.3	15.6	(4.0)	42.6
Charge to equity	–	–	(0.1)	–	–	–	(0.1)
Reclassification from current tax	–	–	–	–	–	0.6	0.6
Acquisition of subsidiaries	–	–	–	–	–	(0.6)	(0.6)
Disposal of subsidiaries/businesses	0.5	–	–	–	–	5.5	6.0
Exchange differences	0.2	(9.3)	0.2	0.5	(1.1)	4.3	(5.2)
At 31 December 2007	3.2	(77.4)	4.8	22.0	(11.1)	(12.0)	(70.5)

► **Note 28** Deferred tax (continued)

The credit to profit or loss for the year includes a £1.3 million credit (2006: charge of £1.9 million) which is included in the profit from discontinued operation.

The deferred tax liability for goodwill arises as deductions are allowed for tax purposes in certain territories.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset and the Group intends to settle the balances on a net basis. An analysis of the deferred tax balances for financial reporting purposes is shown in the table below:

	2007 £'m	2006 £'m
Deferred tax assets	54.5	50.6
Deferred tax liabilities	(125.0)	(164.4)
	(70.5)	(113.8)

The reduction in the statutory corporation tax rate in the UK from 30% to 28% from 1 April 2008 was reflected in calculating the UK deferred tax assets and liabilities. The effect on the results for the year ended 31 December 2007 is an additional tax charge of £0.7 million.

At 31 December 2007, the Group had unused tax losses of £245.6 million (2006: £298.4 million) available for offset against future taxable profits for which no deferred tax asset had been recognised. At 31 December 2007, £82.6 million (2006: £88.3 million) of the unused losses are subject to time expiry rules and will expire in full on or before 31 December 2022.

No deferred tax liability was recognised in respect of the unremitted earnings of overseas subsidiaries, joint ventures and associates as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The Group estimated that tax of £62.7 million (2006: £14.6 million) would arise in respect of remitting all earnings of overseas subsidiaries to the United Kingdom to the extent legally possible.

► **Note 29** Share capital

Authorised	2007 £'m	2006 £'m
2,250,000,000 (2006: 2,250,000,000) ordinary shares of 10 pence each	225.0	225.0

	2007		2006	
	Number	£'m	Number	£'m
Allotted, called-up and fully paid				
At 1 January	1,535,698,482	153.6	1,146,238,652	114.6
Allotted under share plans	5,538,792	0.6	2,595,389	0.3
Shares purchased and cancelled	(83,591,195)	(8.4)	–	–
Allotted to acquire WM-data shares	–	–	377,848,632	37.8
Allotted to acquire WM-data convertible debentures	–	–	9,015,809	0.9
At 31 December	1,457,646,079	145.8	1,535,698,482	153.6

The Company has one class of authorised and issued share capital, comprising ordinary shares of 10 pence each. Subject to the Company's Articles of Association and applicable law, the Company's ordinary shares confer on the holder: the right to receive notice of and vote at general meetings of the Company; the right to receive any surplus assets on a winding-up of the Company; and an entitlement to receive any dividend declared on ordinary shares.

During the period 25 June 2007 to 2 November 2007, the Company purchased and subsequently cancelled 83.6 million ordinary shares at an average price of £1.55, with a nominal value of £8.4 million, for consideration of £130.8 million. Consideration included stamp duty and commission of £0.8 million.

► **Note 30** Share premium

	2007 £'m	2006 £'m
At 1 January	1,097.0	1,084.8
Premium on shares allotted under share plans	1.9	3.1
Premium on shares allotted to acquire WM-data convertible debentures, net of expenses	–	9.1
At 31 December	1,098.9	1,097.0

During the year ended 31 December 2007, the share premium account was not reduced by expenses related to the issuance of new ordinary shares (2006: £5.6 million).

► Note 31 Other reserves

	Retained earnings £'m	Treasury shares £'m	Translation reserve £'m	Capital redemption reserve £'m	Merger reserve £'m	Other £'m	Total £'m
At 1 January 2006	(344.0)	(35.9)	0.6	–	–	(0.8)	(380.1)
Net profit for the year	82.0	–	–	–	–	–	82.0
Dividends paid	(61.1)	–	–	–	–	–	(61.1)
Share-based payment, net of tax	9.1	–	–	–	–	–	9.1
Actuarial gains	17.5	–	–	–	–	–	17.5
Acquisition of WM-data	–	–	–	–	617.1	–	617.1
Cash flow hedges							
– transferred to income statement	(2.0)	–	–	–	–	–	(2.0)
Tax on items taken to equity	(3.9)	–	–	–	–	–	(3.9)
Other	(0.1)	–	–	–	–	–	(0.1)
Exchange differences	–	–	(6.8)	–	–	2.7	(4.1)
At 1 January 2007	(302.5)	(35.9)	(6.2)	–	617.1	1.9	274.4
Net profit for the year	169.9	–	–	–	–	–	169.9
Dividends paid	(85.9)	–	–	–	–	–	(85.9)
Share-based payment, net of tax	9.5	–	–	–	–	–	9.5
Shares purchased and cancelled	(130.8)	–	–	8.4	–	–	(122.4)
Actuarial gains	3.6	–	–	–	–	–	3.6
Recycled on disposal of foreign operations	–	–	5.1	–	–	–	5.1
Other	–	0.8	–	–	1.9	–	2.7
Exchange differences	–	–	95.0	–	–	0.4	95.4
At 31 December 2007	(336.2)	(35.1)	93.9	8.4	619.0	2.3	352.3

Treasury shares

The Group holds shares in LogicaCMG plc in three discretionary trusts which were set up for the benefit of Logica employees. The trusts purchase the Company's shares in the market for use in connection with the Group's employee share plans. The amount shown in the treasury shares reserve at 31 December 2007, which related solely to shares purchased and disposed of by the trusts, would be deducted in determining the amount the Company had available for distribution at that date.

At 31 December 2007, the employee trusts owned 14,575,290 ordinary shares (2006: 15,588,650) with a nominal value of £1.5 million (2006: £1.6 million). The trustees of the CMG ESOP Trust and the Logica ESOP Trust have agreed to waive the right to future dividends on ordinary shares held by the trusts except for a nominal amount. At 31 December 2007 and 2006, the nominal amount payable to both trusts was 0.001 pence per share.

Translation reserve

The translation reserve represented the accumulated exchange differences arising from the following sources:

- the impact of the translation of the income statement and net assets of subsidiaries with a functional currency other than pounds sterling;
- exchange differences recycled on disposal of foreign operations;
- exchange differences arising on the translation of net investments in a foreign operation where any subsidiary of the Group may have a receivable from or a payable to a foreign operation and settlement is neither planned nor likely; and
- exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Capital redemption reserve

The capital redemption reserve was a non-distributable reserve and contained the nominal value of the shares repurchased and cancelled.

Merger reserve

The merger reserve represented the excess of the fair value over the nominal value of shares issued by the Company to acquire at least 90% equity interest in an acquiree company. A purchaser company acquiring at least 90% equity interest in an acquiree company under an arrangement, which provides for the allotment of equity shares by the purchaser in return for the equity interest in the acquiree must apply Section 131 of the Act. When applicable, the section required that the premium on the issue of equity shares by the purchaser company be disregarded. Accordingly, the Company did not record a premium on the share it issued but recognised a merger reserve in the consolidated balance sheet.

► **Note 32** Minority interests

	2007 £'m	2006 £'m
At 1 January	29.4	17.2
Share of net profit for the year	(1.8)	7.1
Share of actuarial gains on defined benefit schemes, net of tax	–	0.1
Acquisitions and buy out of minority interests	(0.9)	7.5
Dividends paid to minority interests	(0.4)	(1.8)
Disposals of subsidiaries	–	(0.7)
Exchange differences	2.0	–
At 31 December	28.3	29.4

► **Note 33** Reconciliation of operating profit to cash generated from continuing operations

	2007 £'m	Restated 2006 £'m
Operating profit from continuing operations	109.7	141.9
ADJUSTMENTS FOR:		
Share-based payment expense	8.5	9.3
Depreciation of property, plant and equipment	38.7	29.2
Loss on disposal of non-current assets and subsidiaries	2.1	1.0
Loss on disposal of businesses	9.7	–
Amortisation of intangible assets	84.0	44.1
Impairment of financial assets	1.8	–
Derivative financial instruments	(1.0)	0.6
Defined benefit plans	(4.2)	(13.4)
	139.6	70.8
Net movements in provisions	(18.1)	3.6
MOVEMENTS IN WORKING CAPITAL:		
Inventories	0.6	(0.2)
Trade and other receivables	33.3	(51.3)
Trade and other payables	(32.7)	44.7
	1.2	(6.8)
Cash generated from continuing operations	232.4	209.5
Add back: Cash outflow related to restructuring and integration activities	28.6	33.0
Net cash inflow from trading operations	261.0	242.5

The consolidated cash flow statement for the year ended 31 December 2006 was restated to show the Telecoms Products business as a discontinued operation to allow a more meaningful comparison with the current period.

► **Note 34** Reconciliation of movements in net debt

	At 1 January 2007 £'m	Cash flows £'m	Acquisitions and disposals* £'m	Other non-cash movements £'m	Exchange differences £'m	At 31 December 2007 £'m
Cash and cash equivalents	177.3	(78.2)	–	–	9.6	108.7
Bank overdrafts	(26.4)	17.8	–	–	(0.5)	(9.1)
	150.9	(60.4)	–	–	9.1	99.6
Finance leases	(6.5)	4.7	0.1	(4.7)	(0.8)	(7.2)
Bank loans	(498.0)	169.5	–	(1.9)	(24.3)	(354.7)
Other loans	(1.1)	0.2	–	–	–	(0.9)
Convertible bonds	(202.4)	–	–	0.2	(17.8)	(220.0)
Net debt	(557.1)	114.0	0.1	(6.4)	(33.8)	(483.2)

* Excludes cash and cash equivalents assumed on acquisition of businesses, amounting to £5.6 million and cash and cash equivalents disposed of £41.4 million and bank overdrafts disposed of £1.3 million.

Cash, cash equivalents and bank overdrafts at the balance sheet date comprised:

	2007 £'m	2006 £'m
Cash at bank and in hand	100.9	141.2
Short-term deposits	7.8	36.1
Bank overdrafts	(9.1)	(26.4)
Cash, cash equivalents and bank overdrafts	99.6	150.9

The Group's credit risk on cash, cash equivalents and bank overdrafts is limited because the counterparties are well-established banks with high credit ratings. Included in cash at bank and in hand were

overdrafts that were part of cash pooling arrangements for which a legal right of off-set existed against positive cash balances that were of an equal or greater amount at the balance sheet date.

The Directors estimate that the carrying value of cash and cash equivalents approximated their fair value.

The Group's policy for cash investments requires that cash and deposits only be placed with counterparties that have a minimum A1/P1 short-term rating and AA- equivalent long-term credit rating. The reference to ratings must include at least one from either Standard & Poor's or Moody's. Cash and deposits are limited to £25 million per bank. No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by any of these counterparties.

► **Note 35** Disposals

Telecoms Products

The Telecoms Products business was disposed of on 18 June 2007 and has been presented as a discontinued operation. The associated disclosures are given in Note 14.

Caran

The Group completed the disposal of its industrial design and product development business Caran to Swedish conglomerate JCE Group on 4 June 2007 for £24.1 million. The disposal process for Caran included a rationalisation of its previous business ventures with Saab. These latter transactions, which completed on 1 April 2007, included: the sale of a 50% interest in Caran Saab Engineering AB; the purchase of a 40% interest in A2 Acoustics AB and the acquisition of Saab's Combitech operations. The entire share capital of A2 Acoustics AB and the Combitech operations were subsequently disposed of on 4 June 2007.

The net assets of the Caran business that was sold to JCE Group on 4 June 2007 were as follows:

	£'m
Goodwill	16.3
Other intangible assets	8.4
Property, plant and equipment	1.3
Trade and other receivables	18.6
Cash and cash equivalents	1.0
Borrowings	(1.3)
Trade and other payables	(15.1)
Current tax	(0.5)
Deferred tax	(2.5)
Net assets disposed of	26.2
Total consideration	24.1
Foreign exchange gains recycled from equity	0.2
Disposal costs	(0.9)
Loss on disposal	(2.8)
Cash consideration received	24.1
Cash and cash equivalents disposed of	(1.0)
Net cash inflow arising on disposal	23.1

► **Note 35 Disposals (continued)**

The sale of the Group's 50% associate interest in Caran Saab Engineering AB on 1 April 2007 generated a profit of £3.0 million from cash consideration received of £4.4 million. Together with the £2.8 million loss on disposal of the Caran business sold to JCE Group on 4 June 2007, the Group's combined profit from the disposal of all Caran-related business activities was £0.2 million.

Other business disposals

The Group completed the sale of certain other non-core businesses during the year, as described below. The aggregate net assets of these businesses, which are not individually significant, at their date of disposal are analysed below:

	£'m
Goodwill	11.3
Other intangible assets	1.4
Property, plant and equipment	1.1
Other non-current assets	0.2
Inventories	1.2
Trade and other receivables	4.1
Cash and cash equivalents	2.4
Trade and other payables	(2.8)
Retirement benefit obligations	(1.2)
Net assets disposed of	17.7
Total consideration	15.6
Foreign exchange losses recycled from equity	(1.2)
Disposal costs	(6.6)
Loss on disposal	(9.9)
Cash consideration received	15.2
Cash and cash equivalents disposed of	(2.4)
Net cash inflow arising on disposal	12.8

The total consideration for the sale of other non-core businesses was £15.6 million, of which £15.2 million was received in cash during the year and £0.4 million is receivable during the first half of 2008. Included in the £6.6 million disposal costs was a £2.6 million impairment loss relating to buildings previously occupied by the graphic services business in Portugal prior to the disposal of this business.

The other non-core businesses disposed of during the year comprised the following:

- an element of the payroll business in the Netherlands which provided solutions for the SME and local government market;
- the Copidata integrated graphic services business in Portugal;
- the business providing staff augmentation and hosting services to the automotive industry in the United States;
- the former WM-data subsidiary operating in Germany, WM-data Deutschland GmbH;
- the subsidiary operating the Group's IT services business in Austria, LogicaCMG GmbH;
- small finance BPO businesses in Norway and Sweden; and
- a part of the IT services business in Denmark, providing services and products to tax authorities around the world.

These disposals do not match the criteria of IFRS 5 'Non-current assets held for sale and discontinued operations' as none of the disposals represents a separate major line of business or geographical area of operations and hence were not treated as a discontinued operation.

► **Note 36 Acquisitions**

During the year, the Group made a small number of acquisitions in the Nordic region, as described below.

Siemens Business Systems

On 31 March 2007, the Group acquired the outsourcing, IT infrastructure and systems integration business of Siemens Business Systems AS in Norway. The acquisition comprised the purchase of the business assets and liabilities, together with the transfer of approximately 250 employees.

Medici Data Oy

On 29 November 2007, the Group acquired a 63.66% interest in Medici Data Oy, resulting in full ownership of this company. The 36.34% associate interest held previously was acquired with the WM-data Group in October 2006. Medici Data Oy is a Finnish company specialising in developing and building applications for planning, controlling and documenting patient care processes and providing information management services to the health care sector.

Karttakone Oy

On 31 October 2007, the Group acquired a 100% interest in Karttakone Oy, a company providing digital and paper-based mapping products covering the whole of Finland and other parts of Europe.

Internet Telecom Payment Solutions AB

On 31 August 2007, the Group acquired a 55% interest in Internet Telecom Payment Solutions AB, resulting in full ownership of this company. The 45% associate interest held previously was acquired with the WM-data Group. The Company provides solutions and services relating to billing for the Telecoms sector in Sweden.

Saab Combitech

On 1 April 2007, the Group acquired Saab's Combitech operations and subsequently disposed of the operations as part of the rationalisation of business ventures with Saab referred to in Note 35.

► **Note 36** Acquisitions (continued)

The provisional fair values of the identifiable assets and liabilities acquired in all acquisitions were as follows:

	Carrying amount pre-acquisition	Fair value
	£'m	£'m
Intangible assets	–	1.9
Property, plant and equipment	3.9	3.9
Inventories	0.1	0.1
Trade and other receivables	8.8	8.8
Current tax	0.2	0.2
Cash and cash equivalents	5.6	5.6
Trade and other payables	(4.6)	(4.6)
Deferred tax	–	(0.6)
Retirement benefit obligations	(0.2)	(0.2)
Net assets acquired	13.8	15.1
Profit recognised as associates		(0.1)
		15.0
Goodwill		10.9
Total consideration		25.9
Total consideration comprised:		
Cash		22.9
Deferred consideration		0.7
Fair value of associate interest when acquired		2.0
Directly attributable costs		0.3
		25.9

Factors that contributed to the recognition of goodwill of £10.9 million on acquisitions during the year were: anticipated revenue and cost synergies with existing operations in Norway and Finland; the value of the workforce in place and the anticipated profits from winning business in the future from new rather than existing customers.

The fair values for the acquisitions were final, except for the fair values of Medici Data Oy included in the table above. Due to the short time period between the acquisition of a controlling interest in Medici Data Oy and the date of approval of these consolidated Financial statements, the fair values above contain some provisional amounts which will be finalised during the 2008 financial year.

Pro forma financial information

The acquired businesses contributed revenues of £31.6 million and a net loss of £1.3 million for the period 1 January to 31 December 2007. If the acquisitions had occurred at the beginning of the financial period, the Group's pro forma revenue and net profit for the 12 months ended 31 December 2007 would have been £3,086.6 million and £167.5 million respectively.

► **Note 37** Share-based payment**Equity-settled share-based payment arrangements**

The Group operates seven equity-settled share-based payment arrangements: the Long Term Incentive Plan (LTIP), the Sharesave Plan, the Executive Equity Participation Plan 2006 (ExEPP 2006), the Employee Equity Partnership Plan (EmEPP) and the Executive Share Option Plan 2006 (ESOP 2006) and two further plans, the Executive Share Option Scheme (ESOS) and the Executive Equity Partnership Plan (ExEPP). Under the latter two plans, no further grants will be made as their ten-year award cycle has come to an end, but under which executives still have current awards. A summary of the main terms of the arrangements is given below, with particular reference to the terms of those grants for which a share-based payment expense has been recognised.

Long Term Incentive Plan

The LTIP is a discretionary benefit offered by the Group for the benefit of its senior employees, as well as to staff with high potential or to recognise significant achievements. It effectively supersedes the ESOS as the Company's main equity benefit discretionary plan. An award under the LTIP may be granted as a conditional allocation, a nil (or nominal) cost option with a short exercise window or as forfeitable shares. Cash-based awards of an equivalent value to share-based awards may also be granted or cash-based payments may be used to satisfy an award originally made in shares (either in whole or part), although the Remuneration Committee does not currently intend to do so. The maximum market value of ordinary shares in the Company subject to LTIP awards granted to any employee in any financial year will not exceed 200% of that employee's base salary. The intention initially is not to exceed 150% of salary.

The performance condition attached to one half of an award will require annual earnings per share growth to exceed the growth in the Retail Price Index by between 3% and 7% per annum over three financial years for between 30% and 100% of this half of the award to vest (that is, between 15% and 50% of the total award). The performance condition attached to the other half of an award will measure the total shareholder return performance (TSR) of Logica over a single three-year performance period against a number of other companies drawn mainly from the Dow Jones EuroStoxx Technology Index. 30% of this half of the award will vest if the Company is ranked in the median at the end of the performance period, with 100% of this half of the award vesting if Logica is at or above the upper quartile. The Remuneration Committee intends to review the performance conditions each year to ensure that they remain suitable and reflect the ongoing market.

Sharesave Plan

The Group operates a savings-related share option plan under which employees enter into a savings contract with a financial institution to pay a fixed monthly sum for either a three-year or, for grants before 4 October 2002, five-year period. Share options are granted at an exercise price at least equal to the closing mid-market price of the Company's shares on a day shortly before the date of grant. The aggregate exercise price payable is equal to the expected proceeds on maturity of the savings contract. Share options may be exercised within six months of the vesting date. There are no performance conditions attached to Sharesave Plan options.

US Stock Purchase Plan

US-based employees are only entitled to participate in the US Stock Purchase Plan, under which they can save up to \$2,000 per annum, with which shares are bought quarterly. Logica North America contributes 15% of the amount saved by the employee.

► **Note 37** Share-based payment (continued)

Equity Participation/Partnership Plans

The Group operates an equity participation plan for senior executives, the ExEPP 2006, and in certain countries an equity partnership plan open to all employees, the EmEPP, the terms of which are similar. Under the equity participation/partnership plans, employees make an investment in the Company's shares, subject to financial limits, which must be maintained over a three-year vesting period. Vesting will occur for those participants employed at the vesting date, subject to a performance condition being met.

Under the ExEPP 2006, senior executives, in any one year, may invest in shares up to a maximum of 50% of net bonus paid. These lodged shares will be matched on a 1:1 (gross basis) (the Matching Award). Matching Award shares will be released as soon as practicable after the third anniversary of the award, subject to the performance conditions having been met. The performance conditions in respect of the ExEPP 2006 have the same criteria as the Company's LTIP performance conditions described above.

The EmEPP's performance condition is based on growth in the Group's earnings per share which must exceed the growth in the Retail Price Index by an average of 3% per annum of the three years performance period for the award to vest in full. The Remuneration Committee may, at its discretion, allow Matching Awards under the EmEPP to vest pro rata if the performance condition is not fully achieved over the three-year performance period. Awards of a matching number of shares are made at nil cost to employees and are exercisable for up to seven years after the vesting date, after which the award will lapse.

Although no further awards will be made under the ExEPP there remain outstanding awards which have yet to reach their third anniversary. This plan was operated for senior executives as an equity-based investment plan subject to financial limits and the investment being maintained over a three-year vesting period. Vesting will occur for those executives employed at the vesting date subject to a performance condition based on growth in the Group's earnings per share exceeding the growth in the Retail Price Index by between 3% and 7% per annum.

Executive Share Option Plan 2006

At the Company's Annual General Meeting in 2006 shareholders approved the implementation of the ESOP 2006. This plan has been introduced to allow awards to be made to senior executives working in jurisdictions where it would be inappropriate to make an award under the LTIP. It is anticipated that performance conditions attached to any ESOP 2006 awards will have the same criteria as the LTIP noted above. As yet, no awards have been made under this plan.

Executive Share Option Scheme

No new option grants will be made under the ESOS, although options made under previous grants to senior executives and managers across the Group remain outstanding. Options are normally exercisable between three and 10 years following grant, provided that a performance condition, specified at the date of grant, has been satisfied. Typically, growth in the Group's earnings per share over the relevant three-year performance period is required to exceed the growth in the Retail Prices Index by at least 21% for the performance condition to be met.

ESOS option grants prior to 2005 have a maximum seven-year exercise period, while the exercise period for option grants in 2005 and 2006 is four years. Retesting of performance conditions may be carried out twice for ESOS options granted in 2003 but only once for

options granted in 2004. No retesting is permitted for grants awarded in 2005 and 2006.

The exercise price of ESOS options is generally at least equal to the closing mid-market price of the Company's shares on the date of grant, although the pricing mechanism varies slightly for grants to French employees.

Unilog Management Incentive

On 10 January 2006, 1,790,000 options were granted for exercise in two equal tranches to five former Unilog managers. This was a one-off share award. For 1,100,000 options the first half of the award vested in full following the achievement of the performance condition and the resulting shares have been released. The first tranche of the remaining 690,000 conditional award shares vested subject to the achievement of individually set performance targets and have been released.

The second tranches of the full award may be transferred as soon as practicable after 31 December 2007.

Unilog Insight

Managers in France who are eligible to participate in the Unilog Insight fund could annually choose to invest all or part of their bonus into this fund. Logica France contributes 50% of the bonus invested by the employee to a maximum of €4,000 per annum. The Unilog Insight fund invests 62% of its capital in Logica shares and is managed by an external fund manager appointed by Logica France.

Unilog Plan

Following the acquisition of Unilog on 13 January 2006, the Company entered into liquidity agreements with the majority of the option holders in Unilog. Under the liquidity agreement, outstanding options in Unilog will, upon exercise, be converted into shares in LogicaCMG plc, using a transfer ratio of 31.97 LogicaCMG plc shares for every one Unilog share.

Under IFRS 2, any amendment of the original terms and conditions of share options is defined as a modification and the portion of the original fair value charge not yet expensed should continue to be accrued over the period from modification to the vesting date. If the modification increases the fair value of the options, the difference between the fair value of the original options and the modified options, both measured as at the date of modification, should be expensed over the period from modification to the vesting date. The incremental increase in fair value after the modification to be expensed in the period up to the vesting date was £4.2 million. The date of modification was 6 April 2006.

The calculation of the £4.2 million modification charge was made in two stages. First the fair value of the options (prior to modification) was recalculated as at the date of modification, using the assumptions prevailing on that date, namely, 6 April 2006. The fair value of the options was measured using the intrinsic value of the options (the share price at acquisition of €73 less the exercise price of each option). Stage two of the calculation was to fair-value the options directly after 6 April 2006 using the Black-Scholes model. The difference between the two calculations represents the incremental increase in fair value of £4.2 million to be expensed from 6 April 2006 to the vesting date.

The share price, exercise price and fair value of the original Unilog options in the table above have been translated into sterling using the exchange rate at the date of acquisition of €1.46 to £1. The share price, exercise price and fair value of the original Unilog options at the date of modification have been translated into sterling using the exchange rate at the date of modification of €1.43 to £1.

► **Note 37** Share-based payment (continued)

A reconciliation of the movement in the number of share options and share awards outstanding is shown below:

	2007		
	Share options		Share awards
	Number of shares	Weighted average exercise price £	Number of shares
Outstanding at 1 January 2007	62,412,723	1.63	9,547,941
Granted	3,558,605	1.83	6,687,664
Exercised	(4,688,438)	1.03	(1,961,798)
Forfeited	(8,032,351)	1.75	(2,185,801)
Expired	(4,280,739)	2.45	(13)
Outstanding at 31 December 2007	48,969,800	1.61	12,087,993
Exercisable at 31 December 2007	9,127,590	2.30	362,847

	2006		
	Share options		Share awards
	Number of shares	Weighted average exercise price £	Number of shares
Outstanding at 1 January 2006	45,688,571	2.34	831,479
Through acquisition of Unilog	34,535,016	0.75	–
Granted	2,515,071	1.93	9,087,722
Exercised	(2,559,099)	1.26	(152,418)
Forfeited	(17,028,102)	1.72	(218,368)
Expired	(738,734)	5.14	(474)
Outstanding at 31 December 2006	62,412,723	1.63	9,547,941
Exercisable at 31 December 2006	15,835,436	3.29	81,949

The weighted average share price at the date of exercise of share options exercised during the year ended 31 December 2007 was 103.1 pence (2006: 175.4 pence).

The exercise price and remaining contractual life of share options outstanding at the balance sheet date was as follows:

Range of exercise prices	2007		
	Share options		Share awards
	Weighted average exercise price £	Weighted average remaining contractual life Years	Number of shares
Less than £1.00	0.52	2.5	22,125,569
£1.00 or more and less than £2.00	1.60	3.2	17,573,257
£2.00 or more and less than £5.00	2.56	4.7	6,891,644
£5.00 or more and less than £10.00	6.33	2.6	1,687,143
£10.00 or more	15.63	2.7	692,187
	1.61	3.1	48,969,800

► **Note 37** Share-based payment (continued)

Range of exercise prices	2006		
	Share options		Share awards
	Weighted average exercise price	Weighted average remaining contractual life	Number of shares
	£	Years	
Less than £1.00	0.52	3.3	26,806,739
£1.00 or more and less than £2.00	1.53	4.1	20,752,153
£2.00 or more and less than £5.00	2.56	4.0	12,093,928
£5.00 or more and less than £10.00	6.29	3.7	1,955,991
£10.00 or more	15.55	3.7	803,912
	1.63	3.7	62,412,723

The fair value of share options and share awards granted in the 2007 and 2006 financial years and the assumptions used in the calculation of their fair value on the date of grant were as follows:

Weighted average assumption	2007			
	Share options			Share awards
	Long Term Incentive Plan	Employee Equity Partnership Plan	Executive Equity Participation Plan	Sharesave Plan
	£1.83	£1.84	£1.76	£1.84
Share price on date of grant	£1.83	£1.84	£1.76	£1.84
Exercise price	nil	nil	nil	£1.83
Share options/awards granted in the year	5,396,395	226,199	1,065,070	3,558,605
Vesting period (years)	3.0	3.0	3.0	3.0
Expected volatility (%)	27.9	–	27.9	29.0
Expected life (years)	3.0	3.0	3.0	3.3
Risk-free rate (%)	5.4	–	5.4	5.4
Dividend yield (%)	3.0	3.0	3.0	3.0
Fair value per share option/award	£1.29	£1.68	£1.23	£0.39

Weighted average assumption	2006					
	Share awards					Share options
	Long Term Incentive Plan	Unilog Management Incentive	Employee Equity Partnership Plan	Executive Equity Partnership Plan	Executive Share Option Plan	Sharesave Plan
	£1.68	£1.89	£1.93	£1.93	£1.93	£1.93
Share price on date of grant	£1.68	£1.89	£1.93	£1.93	£1.93	£1.93
Exercise price	nil	nil	nil	nil	£1.93	£1.93
Share options/awards granted in the year	6,583,516	1,790,000	169,766	544,440	205,000	2,310,071
Vesting period (years)	3.0	2.0	3.0	3.0	3.0	3.0
Expected volatility (%)	35.6	–	–	–	52.4	38.9
Expected life (years)	3.0	2.0	3.0	3.0	Note 1	3.3
Risk-free rate (%)	4.8	–	–	–	4.5	4.5
Dividend yield (%)	3.3	3.1	2.9	2.9	2.9	2.9
Fair value per share option/award	£1.27	£1.78	£1.76	£1.76	£0.77	£0.51

1 The assumed exercise behaviour of ESOS option holders for grants made in 2006 was as follows: 60% of participants exercise after three years and 25% after six years, subject to the market share price being at least 20% over the option exercise price. The balance are assumed to be exercised after 10 years, providing the options are in the money.

► **Note 37** Share-based payment (continued)

The fair value of ESOS, LTIP and Unilog Management Incentive scheme options was measured using a Monte Carlo simulation model and the fair value of Sharesave Plan options was measured using the Black-Scholes option pricing model. The fair value of share awards under the Equity Participation/Partnership Plans was measured at the market share price at the date of grant reduced for the present value of expected dividends over the vesting period, for which award holders have no entitlement.

Expected volatility was determined using the historical volatility of the Company's share price over a period commensurate with the expected life of the share option. The period from 1 July 1999 to 30 June 2001 was excluded as management believe it represented a period of high share price volatility which is unlikely to be repeated in the future.

Share awards under the Equity Participation/Partnership Plans are assumed to be exercised on the vesting date. Sharesave options are assumed to be exercised three months after the vesting date, the mid-point of the contractual exercise period.

At the date of grant, it is assumed that performance conditions will be met in full. Adjustments are made subsequently, where necessary, to reflect updated assessments of whether performance conditions will be met and the final determination on the vesting date. The share-

based payment expense also takes account of expected forfeiture from the balance sheet date to the end of the vesting period following cessation of employment. A weighted average forfeiture rate of 9% per annum was assumed for calculating the share-based payment expense for the year ended 31 December 2007 (2006: 7%).

For exercises prior to the vesting date, the additional expense between the calculation date and the vesting date is immediately charged to the income statement.

The Group recognised a total expense in respect of equity-settled share-based payment arrangements of £9.7 million (including a Telecoms Products charge of £0.6 million) in the year ended 31 December 2007 (2006: £9.6 million including a Telecoms Products charge of £0.9 million).

Cash-settled share-based payment arrangements

The Group does not operate separate cash-settled share-based payments arrangements; however, social security obligations arising on share option and share award plans are treated as such an arrangement for accounting purposes. The liability for cash-settled share-based social security payments at 31 December 2007 was £1.2 million (2006: £1.8 million). The movement in the liability resulted in an income for the year ended 31 December 2007 of £0.6 million (2006: expense of £0.6 million).

► **Note 38** Retirement benefit schemes

Defined contribution schemes

The Group operates a number of voluntary pension schemes of the defined contribution type in the UK and overseas, under which contributions are paid by Group undertakings. In some countries, contributions are made into state pension schemes. The pension cost charge for defined contribution schemes amounted to £99.2 million including a Telecoms Products charge of £1.6 million (2006: £64.0 million including a Telecoms Products charge of £3.3 million).

In Sweden, the Group contributed to the Alecta SE pension scheme which is a defined benefit pension scheme. This pension scheme was classified as a defined contribution scheme as it is a multi-employer plan and sufficient information is not available to bifurcate the assets of the plan between the various employers. Any surplus or deficit in the plan will affect the amount of future contributions payable. Alecta used a collective funding ratio to determine the surplus or deficit in the pension scheme. The collective funding is the difference between Alecta's assets and the commitments to the policyholders and insured individuals. The collective solvency is normally allowed to vary between 125% and 155%, with the target being 140%. At the end of 31 December 2007, Alecta's collective funding ratio was 152% and pension contributions for 2008 will reduce.

Defined benefit schemes

In addition, the Group operates defined benefit pension schemes primarily for the benefit of employees in the UK and the Netherlands, with smaller schemes in other European countries and the US. Defined benefit schemes are usually funded by contributions from the employing companies, and in some cases also employees, to meet the costs, at rates assessed by the actuary or insurer of each scheme, in regular funding reviews. The schemes' assets are held in funds separate from those of the Group. Scheme benefits typically provide for a pension in retirement based on years of qualifying service and final pensionable salary.

The most recent valuations of plan assets, reimbursement rights and defined benefit obligations were carried out at 31 December 2006 by qualified actuaries. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the projected unit credit method.

► **Note 38** Retirement benefit schemes (continued)

The weighted average principal actuarial assumptions used at the balance sheet date were as follows:

	UK schemes		Overseas schemes	
	2007	2006	2007	2006
Discount rate (%)	5.80	5.15	5.31	4.74
Average life expectancy for 65-year-old male (years)	22	20	17	17
Average life expectancy for 65-year-old female (years)	25	21	21	21
Expected return on plan assets (%)	6.50	6.94	4.12	4.02
Expected return on reimbursement rights (%)	–	–	3.10	4.50
General salary increases (%)	3.40	3.10	2.12	1.98
Rate of increase of pensions in payment (%)	3.40	3.10	0.56	0.56
Inflation (%)	3.40	3.10	2.30	2.06

The amounts recognised in the income statement as employee benefit expense for defined benefit schemes were as follows:

	2007		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Current service cost	4.6	5.2	9.8
Past service cost	0.1	1.9	2.0
Curtailment gain	–	(0.3)	(0.3)
Interest cost	10.2	7.9	18.1
Expected return on plan assets	(12.1)	(6.4)	(18.5)
Expected return on reimbursement rights	–	(0.3)	(0.3)
	2.8	8.0	10.8

	2006		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Current service cost	6.0	6.0	12.0
Past service cost	(11.6)	–	(11.6)
Interest cost	9.9	7.1	17.0
Expected return on plan assets	(10.5)	(5.6)	(16.1)
Expected return on reimbursement rights	–	(0.4)	(0.4)
	(6.2)	7.1	0.9

Past service cost in 2006 included a £9.0 million gain which is presented as an exceptional item, further details of which are provided in Note 7. The remaining £2.6 million gain represented the effect of changes in UK pension legislation introduced on 6 April 2006 (A-day). A-day allowed members of the UK defined benefit pension schemes to take up to 25% of their pension as a tax-free cash sum at retirement. The Group changed the assumptions relating to the cash sum taken by scheme members at retirement and this resulted in a £2.6 million gain, which has been recognised in full within operating profit.

The actual return on plan assets for UK schemes was a £10.5 million gain (2006: £15.0 million gain) and for overseas schemes was a £7.9 million loss (2006: £9.7 million loss). The actual return on reimbursement rights for overseas schemes was a £0.6 million gain (2006: £0.5 million loss).

Actuarial gains and losses have been recognised in full in the statement of recognised income and expense. The cumulative amount of actuarial gains recognised through the statement of recognised income and expense at 31 December 2007 was £14.8 million (2006: £11.2 million gain).

► **Note 38** Retirement benefit schemes (continued)

The amounts included in the balance sheet in respect of the Group's defined benefit schemes were as follows:

	2007		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Present value of defined benefit obligations	(202.3)	(180.3)	(382.6)
Fair value of scheme assets	189.3	154.6	343.9
Deficit in the schemes	(13.0)	(25.7)	(38.7)
Past service cost not yet recognised	–	0.1	0.1
Fair value of reimbursement rights	–	10.1	10.1
Net liability recognised in the balance sheet	(13.0)	(15.5)	(28.5)
PRESENTED AS:			
Financial assets	–	10.1	10.1
Retirement benefit assets	2.8	9.2	12.0
Retirement benefit liabilities	(15.8)	(34.8)	(50.6)
	(13.0)	(15.5)	(28.5)

	2006		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Present value of defined benefit obligations	(198.6)	(166.0)	(364.6)
Fair value of scheme assets	171.5	147.5	319.0
Deficit in the schemes	(27.1)	(18.5)	(45.6)
Past service cost not yet recognised	–	0.2	0.2
Fair value of reimbursement rights	–	8.6	8.6
Net liability recognised in the balance sheet	(27.1)	(9.7)	(36.8)
PRESENTED AS:			
Financial assets	–	8.6	8.6
Retirement benefit assets	2.9	15.8	18.7
Retirement benefit liabilities	(30.0)	(34.1)	(64.1)
	(27.1)	(9.7)	(36.8)

► **Note 38** Retirement benefit schemes (continued)

The following tables present a reconciliation of the movements in the defined benefit obligation between the beginning and end of the financial year, and an analysis of the defined benefit obligation between unfunded schemes and those schemes that are partly or wholly funded:

	2007		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Defined benefit obligation			
At 1 January 2007	198.6	166.0	364.6
Current service cost	4.6	5.2	9.8
Past service cost	0.1	1.9	2.0
Curtailment gain	–	(0.3)	(0.3)
Interest cost	10.2	7.9	18.1
Contributions from scheme members	1.0	0.4	1.4
Actuarial gains	(8.4)	(10.8)	(19.2)
Benefits paid	(3.8)	(4.2)	(8.0)
Plan dissolution	–	(0.1)	(0.1)
Acquisition of subsidiaries	–	1.1	1.1
Disposals of subsidiaries	–	(1.2)	(1.2)
Exchange differences	–	14.4	14.4
At 31 December 2007	202.3	180.3	382.6
Defined benefit obligation of unfunded schemes	–	19.1	19.1
Defined benefit obligation of funded schemes	202.3	161.2	363.5
At 31 December 2007	202.3	180.3	382.6

	2006		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Defined benefit obligation			
At 1 January 2006	205.7	155.5	361.2
Current service cost	6.0	6.0	12.0
Curtailment gain	(11.6)	–	(11.6)
Interest cost	9.9	7.1	17.0
Contributions from scheme members	1.0	0.5	1.5
Actuarial gains	(8.8)	(20.4)	(29.2)
Benefits paid	(3.6)	(3.5)	(7.1)
Acquisition of subsidiary	–	23.4	23.4
Exchange differences	–	(2.6)	(2.6)
At 31 December 2006	198.6	166.0	364.6
Defined benefit obligation of unfunded schemes	–	20.5	20.5
Defined benefit obligation of funded schemes	198.6	145.5	344.1
At 31 December 2006	198.6	166.0	364.6

Insurance policies taken out to fund retirement benefit schemes that do not qualify as plan assets are presented as reimbursement rights. Such policies fund pension schemes in Germany and a life assurance scheme in the United States.

► **Note 38** Retirement benefit schemes (continued)

The following tables present a reconciliation of the movements in plan assets and reimbursement rights between the beginning and end of the financial year:

	2007		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Plan assets and reimbursement rights			
At 1 January 2007	171.5	156.1	327.6
Expected return on assets	12.1	6.7	18.8
Contributions by employer	10.1	5.6	15.7
Contributions from scheme members	1.0	0.4	1.4
Actuarial losses	(1.6)	(14.0)	(15.6)
Benefits paid	(3.8)	(4.4)	(8.2)
Plan dissolution	–	(0.1)	(0.1)
Acquisition of subsidiaries	–	0.9	0.9
Exchange differences	–	13.5	13.5
At 31 December 2007	189.3	164.7	354.0
Plan assets	189.3	154.6	343.9
Reimbursement rights	–	10.1	10.1
At 31 December 2007	189.3	164.7	354.0

	2006		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Plan assets and reimbursement rights			
At 1 January 2006	149.3	158.3	307.6
Expected return on assets	10.5	6.0	16.5
Contributions by employer	9.8	4.0	13.8
Contributions from scheme members	1.0	0.5	1.5
Actuarial gains/(losses)	4.5	(16.2)	(11.7)
Benefits paid	(3.6)	(3.6)	(7.2)
Acquisitions of subsidiaries	–	9.5	9.5
Exchange differences	–	(2.4)	(2.4)
At 31 December 2006	171.5	156.1	327.6
Plan assets	171.5	147.5	319.0
Reimbursement rights	–	8.6	8.6
At 31 December 2006	171.5	156.1	327.6

► **Note 38** Retirement benefit schemes (continued)

The fair value of plan assets at the balance sheet date is analysed below:

	2007		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Equities	68.1	1.4	69.5
Government bonds	53.0	138.2	191.2
Corporate bonds	53.6	10.1	63.7
Property	13.7	–	13.7
Cash	0.9	–	0.9
Other	–	15.0	15.0
	189.3	164.7	354.0

	2006		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Equities	100.1	4.0	104.1
Government bonds	26.2	134.5	160.7
Corporate bonds	29.6	1.9	31.5
Property	15.4	0.5	15.9
Cash	0.2	0.2	0.4
Other	–	6.4	6.4
	171.5	147.5	319.0

The expected rates of return on government bonds and corporate bonds is determined by reference to market yields at the balance sheet date for bonds of a similar term to those held as plan assets. The expected rate of return on equities is determined by reference to real historical equity market returns. The overall expected rate of return on plan assets is calculated as a weighted average of the expected rates of return of individual asset classes. The weighted average is calculated by reference to the amount in each class of plan assets at the balance sheet date. Plan assets in overseas schemes include ordinary shares of the Company with a fair value of £1.5 million at 31 December 2007 (2006: £2.3 million) but do not include any property occupied by, or other assets used by, the Group.

The history of the Group's defined benefit arrangements is as follows:

	UK schemes			
	2007 £'m	2006 £'m	2005 £'m	2004 £'m
Present value of defined benefit obligation	(202.3)	(198.6)	(205.7)	(181.9)
Fair value of plan assets	189.3	171.5	149.3	116.5
Deficit	(13.0)	(27.1)	(56.4)	(65.4)
Experience gain/(loss) on plan liabilities	10.6	(0.9)	(1.0)	(4.4)
Experience gain/(loss) on plan assets	(1.6)	4.6	17.5	4.2

► **Note 38** Retirement benefit schemes (continued)

	Overseas schemes			
	2007 £'m	2006 £'m	2005 £'m	2004 £'m
Present value of defined benefit obligation	(180.3)	(166.0)	(155.5)	(140.2)
Fair value of plan assets	154.6	147.5	149.1	132.8
Deficit	(25.7)	(18.5)	(6.4)	(7.4)
Experience gain/(loss) on plan liabilities	5.5	2.7	(0.9)	2.8
Experience (loss)/gain on plan assets	(14.3)	(15.2)	12.3	3.8

The Group expects to contribute approximately £17.6 million (2006: £17.5 million) to defined benefit plans in 2008, of which £12.7 million (2006: £13.2 million) relates to UK schemes and £4.9 million (2006: £4.3 million) relates to overseas schemes.

The assumed discount rate, rate of inflation, salary increases and mortality all have a significant effect on the accounting valuation. The following table shows the sensitivity of the valuation to changes in these assumptions:

	Increase in assumption %	Impact on deficit £'m	Decrease in assumption %	Impact on deficit £'m
Discount rate	0.5	(36.2)	0.5	36.5
Rate of inflation	0.5	15.5	0.5	(14.1)
Real rate of increase/(decrease) in salaries	1.0	15.9	1.0	(14.2)
One year increase/(decrease) to life expectancy	–	7.9	–	(8.1)

► **Note 39** Related party transactions

Remuneration of key management personnel

The remuneration of the Directors of the Company and the Group's Executive Committee, who are the key management personnel of the Group, is set out below in aggregate for each of the categories required by IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is disclosed in the Report of the Remuneration Committee on pages 56 to 73.

	2007 £'m	2006 £'m
Short-term employee benefits	6.5	9.6
Post-employment benefits	0.9	0.8
Termination benefits	3.0	–
Share-based payment	3.8	3.9
	14.2	14.3

The amount for share-based payment is that calculated in accordance with IFRS 2 'Share-based Payment'.

► **Note 40** Financial commitments**Operating lease commitments**

At 31 December, the Group had commitments under non-cancellable operating leases, principally for offices and computer equipment, as follows:

	2007		2006	
	Land and buildings £'m	Other £'m	Land and buildings £'m	Other £'m
Future minimum lease payments payable				
Within one year	78.6	54.1	78.6	59.5
Between two and five years	246.4	55.4	217.5	71.1
After five years	173.0	–	196.0	–
	498.0	109.5	492.1	130.6

The expense recognised in the income statement for payments under non-cancellable operating leases for the year ended 31 December 2007 was £139.4 million including a Telecoms Products charge of £3.0 million (2006: £108.9 million including a Telecoms Products charge of £6.4 million). At 31 December 2007, the total future minimum sub-lease payments expected to be received under non-cancellable sub-leases were £23.0 million (2006: £29.6 million).

Capital expenditure commitments

	2007		2006	
	Group £'m	Associates £'m	Group £'m	Associates £'m
Contracted at the balance sheet date	0.8	–	0.1	–

► **Note 41** Contingent liabilities

The Group's subsidiaries and the Company are currently, and may be from time to time, involved in a number of legal proceedings

including inquiries from or discussions with governmental and taxation authorities. Whilst the outcome of current outstanding actions and claims remains uncertain, it is expected that they will be resolved without a material impact on the Group's financial position.

► **Note 42** Event after the balance sheet date

On 15 February 2008, Energias de Portugal S.A. (EDP) notified the Group of its exercise of the EDP Put Option, under the terms of the shareholders agreement entered into between EDP and Logica on

20 April 2005. Accordingly, EDP gave notice that it will sell to Logica the remaining 40% interest in the equity shares of Edinfor – Sistemas Informáticos S.A. and the outstanding shareholder loans for the fixed price of €55.0 million. On 7 March 2008, the transaction completed resulting in Logica owning a 100% equity interest in Edinfor.

Independent auditors' report to the members of LogicaCMG plc

We have audited the parent Company Financial statements of LogicaCMG plc for the year ended 31 December 2007 which comprise the balance sheet and the related notes. These parent Company Financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report of the Remuneration Committee that is described as having been audited.

We have reported separately on the Group Financial statements of LogicaCMG plc for the year ended 31 December 2007.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual report, the Report of the Remuneration Committee and the parent Company Financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the parent Company Financial statements and the part of the Report of the Remuneration Committee to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent Company Financial statements give a true and fair view and whether the parent Company Financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of Directors is consistent with the parent Company Financial statements. The information given in the Report of Directors includes that specific information presented in the market and Financial review that is cross referred from the Business review section of the Report of the Directors.

In addition we report to you if, in our opinion, 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 parent Company Financial statements. The other information comprises only the Chairman's statement, the Chief Executive's review, the market and Financial review, the Report of the Directors, the Corporate social responsibility statement and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company 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 parent Company Financial statements and the part of the Report of Remuneration Committee to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent Company 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 parent Company Financial statements and the part of the Report of the Remuneration Committee to be audited 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 parent Company Financial statements and the part of the Report of the Remuneration Committee to be audited.

Opinion

In our opinion:

- the parent Company 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 2007;
- the parent Company Financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of Directors is consistent with the parent Company Financial statements.

PricewaterhouseCoopers LLP

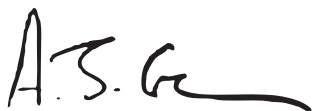
PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
20 March 2008

Company balance sheet 31 December 2007

	Note	2007 £'m	2006 £'m
Fixed assets			
Investments	V	1,416.3	1,486.0
Current assets			
Debtors: amounts due within one year	VI	376.3	388.6
Cash at bank and in hand		4.2	2.5
		380.5	391.1
Creditors – amounts falling due within one year	VII	(295.4)	(284.7)
Net current assets		85.1	106.4
Total assets less current liabilities		1,501.4	1,592.4
Creditors – amounts falling due after more than one year	VIII	–	(175.1)
Net assets		1,501.4	1,417.3
Capital and reserves			
Called-up equity share capital	X	145.8	153.6
Share premium account	XI	1,098.9	1,097.0
Profit and loss account	XI	225.0	143.4
Capital redemption reserve	XI	8.4	–
Other reserves	XI	23.3	23.3
Equity shareholders' funds	XII	1,501.4	1,417.3

The Company Financial statements on pages 147 to 157 were approved by the Board of Directors on 20 March 2008 and were signed on its behalf by:



A Green



S Keating

Directors
20 March 2008

► **Note I Accounting policies**

The following are the principal accounting policies of the Company which have been applied consistently throughout the year and the preceding year.

Basis of accounting

The Company Financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost. Such investments include both investments in shares issued by the subsidiary and other parent entity interests that in substance form part of the parent entity's investment in the subsidiary. These include investments in the form of loans which have no fixed repayment terms and which have been provided to subsidiaries as an additional source of long-term capital. Trade amounts receivable from subsidiaries in the normal course of business and other amounts advanced on commercial terms and conditions are included in debtors.

Investments in subsidiaries in the Company's balance sheet are held at cost less any accumulated impairment losses.

Financial instruments

The Company has taken advantage of the exemptions available in Financial Reporting Standard (FRS) 25 para 3(c)(b) and FRS 29 para 2(d) not to disclose any information relating to financial instruments as the Company's Financial statements are included in publicly available consolidated Financial statements.

The following policies for financial instruments have been applied in the preparation of the Company's Financial statements:

Cash at bank and in hand

Cash at bank and in hand includes short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of the Company's cash management are included in cash at bank and in hand where they have a legal right of offset against positive cash balances, otherwise bank overdrafts are classified as borrowings.

Debtors

Debtors are stated at amounts receivable less any provision for recoverability. A trade or other receivable is derecognised from the balance sheet when the Company enters into a financing transaction which transfers to a third party all significant rights or other access to benefits relating to that asset, and all significant exposures to the risks inherent in that asset.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated either at amortised cost or, if designated as such, at fair value through profit or loss. For borrowings stated at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method.

Taxation

Corporation tax is payable on taxable profits at amounts expected to be paid, or recovered, under the tax rates and laws that have been

enacted or substantively enacted at the balance sheet date. Deferred tax is recognised to take account of timing differences between the treatment of transactions for financial reporting purposes and their treatment for tax purposes. A deferred tax asset is only recognised when it is regarded as 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 tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currencies

The functional currency of the Company is pounds sterling. Transactions denominated in foreign currencies are translated into the functional currency of the Company at the rates prevailing at the dates of the individual transactions. Foreign currency monetary assets and liabilities are translated at the rates prevailing at the balance sheet date. Exchange gains and losses arising are charged or credited to the profit and loss account within net operating costs.

Employee benefits

Retirement benefits

The Company participates in retirement benefit plans of a defined contribution nature. The cost of defined contribution plans is charged to the profit and loss account on the basis of contributions payable by the Company during the year.

Share-based payment

The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the profit and loss account.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value at the grant date of the shares or share options awarded and the number that are expected to vest. The assumptions underlying the number of awards expected to vest are subsequently adjusted to reflect conditions prevailing at the balance sheet date. At the vesting date of an award, the cumulative expense is adjusted to take account of the awards that actually vest.

Other employee benefits

A liability for other employee benefits, such as paid holiday, is recognised for the amount the Company may be required to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

Employee share ownership trusts

Employee share ownership plan (ESOP) trusts, which purchase and hold ordinary shares of the Company in connection with certain employee share plans, are included in the Company Financial statements. Any consideration paid or received by ESOP trusts for the purchase or sale of the Company's own shares is shown as a movement in shareholders' equity.

Dividends

Dividends to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the period in which the shareholders' right to receive payment is established.

► **Note II** Profit attributable to the Company

As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the Company. The profit for the financial year for the Company was £296.6 million (2006: £117.8 million), which included a foreign exchange gain of £0.1 million (2006: loss of £0.8 million).

► **Note III** Employees and Directors

Staff costs for the year amounted to:

	2007 £'m	2006 £'m
Salaries and other short-term employee benefits	4.1	4.4
Social security costs	0.3	0.6
Pension costs	0.1	0.3
Share-based payments (Note XIII)	0.6	1.1
	5.1	6.4

The average monthly number of employees, including Directors, during the year ended 31 December 2007 was 16 (2006: 15). The number of employees including Directors, at 31 December 2007, based in the UK was 11 (2006: 11), 1 (2006: 3) was based in the Netherlands and 1 (2006: 1) was based in France. For further information about the Directors of the Company, refer to the Directors' biographies on pages 36 to 39 and for details of Directors' emoluments and share interests refer to the Report of the Remuneration Committee on pages 56 to 73.

► **Note IV** Dividends

The Directors are proposing a final dividend in respect of the year ended 31 December 2007 of 3.50 pence per share, which would reduce shareholders' funds by approximately £50.5 million. The proposed dividend is subject to approval at the Annual General Meeting on 14 May 2008 and has not been recognised as a liability in these Financial statements. The final dividend will be paid on 15 May 2008 to shareholders listed on the share register on 18 April 2008.

The amounts recognised as distributions to equity holders were as follows:

	2007 p/share	2006 p/share	2007 £'m	2006 £'m
Interim dividend, relating to 2007/2006	2.30	2.20	34.0	24.9
Final dividend, relating to 2006/2005	3.40	3.20	51.9	36.2
	5.70	5.40	85.9	61.1

Dividends payable to employee share ownership trusts are excluded from the amounts recognised as distributions in the table above.

► **Note V** Investments

Investments in subsidiary undertakings

Cost	Shares £'m	Loans £'m	Total £'m
At 1 January 2007	645.8	846.5	1,492.3
Additions	223.3	3.7	227.0
Disposals	(47.8)	(257.2)	(305.0)
Foreign exchange	–	8.3	8.3
At 31 December 2007	821.3	601.3	1,422.6
Impairments			
At 1 January 2007	(6.3)	–	(6.3)
Impairment during the year	–	–	–
At 31 December 2007	(6.3)	–	(6.3)
Net book value			
At 31 December 2007	815.0	601.3	1,416.3
At 31 December 2006	639.5	846.5	1,486.0

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings at 31 December 2007 will be annexed to the Company's next annual return. At 31 December 2007, the Company held, directly or indirectly, 100% (except where shown) of the ordinary issued share capital of the following principal subsidiary undertakings:

Incorporated in England:

LogicaCMG UK Limited (now Logica UK Limited)
CMG UK Limited* (now Logica IT Services UK Limited)

Incorporated in the Netherlands:

LogicaCMG Nederland BV* (now Logica Nederland BV)
LogicaCMG BV* (now Logica Holdings Nederland BV)
LogicaCMG Business Process Outsourcing BV*
(now Logica Business Process Outsourcing Nederland BV)

Incorporated in Germany:

LogicaCMG Deutschland GmbH & Co KG*
(now Logica Deutschland GmbH & Co KG)
Unilog Management GmbH*

Incorporated in France:

Unilog SA* (now Logica France SAS)

Incorporated in Belgium:

LogicaCMG NV/SA* (now Logica Belgium NV/SA)

Incorporated in Portugal:

Edinfor - Sistemas Informáticos SA*^

Incorporated in Jersey:

LogicaCMG (Jersey) Limited

Incorporated in Sweden:

WM-data AB*
WM-data Sverige AB* (now Logica Sverige AB)
WM-data Infra Solutions AB* (now Logica Infra Solutions AB)

Incorporated in Norway:

WM-data AS* (now Logica Norge AS)

Incorporated in Finland:

WM-data OY* (now Logica Suomi OY)

Incorporated in Denmark:

WM-data Danmark AS* (now Logica Danmark AS)

Incorporated in Australia:

LogicaCMG Pty Limited* (now Logica Australia Pty Limited)

Incorporated in the United States:

LogicaCMG Inc* (now Logica North America Inc)

Incorporated in India:

LogicaCMG Private Limited*

Incorporated in the Czech Republic:

LogicaCMG sro*

* Subsidiaries not directly held by the Company.

^ 60% holding.

► Note VI Debtors

	2007 £'m	2006 £'m
Amounts due from subsidiary undertakings	370.2	381.9
Deferred tax asset	5.9	6.4
Corporation tax recoverable	0.1	0.1
Other debtors	0.1	0.2
	376.3	388.6

The Directors estimate that the carrying value of financial assets within debtors approximated their fair value.

► Note VII Creditors

	2007 £'m	2006 £'m
Amounts falling due within one year		
Bank loan	50.3	–
Amounts due to subsidiary undertakings	239.5	267.2
Social security and other taxes	2.7	3.5
Other financial liabilities	–	2.2
Derivative financial instruments	1.5	–
Accruals and other creditors	1.4	11.8
	295.4	284.7

Included in the amounts due to subsidiary undertakings was an amount of £237.7 million which carried an interest rate of 2.875% per annum with no fixed terms of repayment and no security.

The bank loan is described further in Note VIII. Other financial liabilities of £nil (2006: £2.2 million) represented the Company's commitment to issue new ordinary shares on conversion of the convertible bonds issued by LogicaCMG (Jersey) Limited, another Group company (see Note 25 of the consolidated Financial statements).

The fair value of the call option on the Company's shares was measured using the Black-Scholes option pricing model, with the following assumptions used at 31 December:

	2007	2006
Share price on measurement date	£1.18	£1.86
Exercise price	£3.24	£3.24
Expected volatility	26%	31%
Expected life (years)	0.7	1.7
Risk-free rate	4.1%	3.9%
Dividend yield	4.1%	3.9%

Expected volatility was determined using the historical volatility of the Company's share price. The period from 1 July 1999 to 30 June 2001 was excluded as management believe it represented a period of high share price volatility which is unlikely to be repeated in the future.

The Directors estimate that the carrying value of financial liabilities within creditors approximated their fair value.

► **Note VIII** Creditors – amounts falling due after more than one year

	2007 £'m	2006 £'m
Bank loans	–	175.1

At 31 December 2007, the Company had the following unsecured principal bank facilities:

- a £330 million multi-currency, syndicated revolving credit facility maturing on 19 September 2010. At 31 December 2007, £25.0 million was drawn down under the facility by another Group Company (2006: £74.5 million) and carried an interest rate of 0.80% (2006: 0.95%) over LIBOR. At 31 December 2007, the facility was undrawn by the Company (2006: £22.0 million);
- a £150 million syndicated revolving credit facility maturing on 19 November 2008, with the right to extend the facility to 19 November 2010. The facility was entered into on 20 August 2006 and amended on 19 November 2007. At 31 December 2007, SEK650 million (£50.5 million) was drawn down under the facility (2006: £153.7 million) and carried an interest rate of 0.80% over LIBOR (2006: 0.95% over LIBOR).

The obligations of the borrowers under the £330 million facility are guaranteed by the principal UK and Dutch trading subsidiaries, LogicaCMG UK Limited and LogicaCMG Nederland B.V. The £150 million facility is guaranteed by LogicaCMG UK Limited.

► **Note IX** Deferred tax

The movement on the deferred tax asset during the year was as follows:

	£'m
At 1 January 2007	6.4
Debit to the profit and loss account	(0.5)
At 31 December 2007	5.9

At 31 December, deferred tax was recognised as follows:

	2007 £'m	2006 £'m
Other financial liabilities	5.9	6.4
Share-based payment arrangements	–	–
	5.9	6.4

► **Note X** Share capital

	2007 £'m	2006 £'m
Authorised		
2,250,000,000 (2006: 2,250,000,000) ordinary shares of 10 pence each	225.0	225.0

	2007		2006	
	Number	£'m	Number	£'m
Allotted, called-up and fully paid				
At 1 January	1,535,698,482	153.6	1,146,238,652	114.6
Allotted under share plans	5,538,792	0.6	2,595,389	0.3
Shares purchased and cancelled	(83,591,195)	(8.4)	–	–
Allotted to acquire WM-data shares	–	–	377,848,632	37.8
Allotted to acquire WM-data convertible debentures	–	–	9,015,809	0.9
At 31 December	1,457,646,079	145.8	1,535,698,482	153.6

The Company has one class of authorised and issued share capital, comprising ordinary shares of 10 pence each. Subject to the Company's Articles of Association and applicable law, the Company's ordinary shares confer on the holder: the right to receive notice of and vote at general meetings of the Company; the right to receive any surplus assets on a winding-up of the Company; and an entitlement to receive any dividend declared on ordinary shares.

During the period 25 June 2007 to 2 November 2007, the Company purchased and subsequently cancelled 83.6 million ordinary shares at an average price of £1.55, with a nominal value of £8.4 million, for consideration of £130.8 million. Consideration included stamp duty and commission of £0.8 million.

During the year, 5,538,792 new ordinary shares, with a nominal value of £553,879 were issued under employee share plans as follows:

Year of grant of option	Exercise price p/share	Number exercised
1997	134.0	140,000
1997	156.0	441,050
2000 Unilog options	91.7	2,332,493
2002	107.2	687,532
2002	80.9	294,705
2003	83.5	100,326
2004	156.5	45,508
2005	159.1	52,178
2006	–	1,445,000

During the year 3,558,605 options were granted over unissued and existing shares under employee share option plans at a price of 183 pence and are exercisable in 2010. Options granted under SAYE plans and discretionary options were granted at market price.

During the year, awards were made over 226,199 shares under the Employee Equity Partnership Plan (EmEPP), 1,065,070 shares under the Executive Equity Participation Plan 2006 (ExEPP 2006) and 5,396,395 shares under the Long Term Incentive Plan (LTIP). Refer to Note XIII for further information on the Company's share plans.

At 31 December 2007, there were rights to the allotment of 37,771,989 shares under employee share plans at prices ranging from 81 pence to 2,288 pence, exercisable between 2008 and 2014. At 31 December 2006, there were rights to the allotment of 42,124,367 shares under employee share plans at prices ranging from 81 pence to 2,288 pence and exercisable between 2007 and 2014.

The Company holds treasury shares in discretionary trusts which were set up for the benefit of Logica employees. The trusts purchase the Company's shares in the market for use in connection with the Group's all-employee and discretionary share option plans and equity partnership/participation plans.

At 31 December 2007, the employee trusts owned 14,575,290 shares (2006: 15,588,650) with a nominal value of £1.5 million (2006: £1.6 million). Of this holding, 4,121,631 shares were under option to employees (2006: 5,014,486) and 2,207,215 were held for the equity partnership plans (2006: 1,285,625).

The trustees of the CMG ESOP Trust and the Logica ESOP Trust have agreed to waive the right to future dividends on shares of the Company held by the trusts except for a nominal amount. At 31 December 2007, the nominal amount payable to both trusts was 0.001 pence per share. Waiver of dividends payable during the year amounted to £0.9 million (2006: £0.8 million). The market value of the shares owned by employee trusts, based on the mid-market price at 31 December 2007 was £17.2 million (2006: £29.0 million).

► **Note XI** Capital and reserves

	Share capital £'m	Share premium account £'m	Profit and loss account £'m	Treasury shares £'m	Capital redemption reserve £'m	Special reserve £'m	Total £'m
At 1 January 2006	114.6	1,084.8	121.6	(35.9)	–	23.3	1,308.4
Net profit for the year	–	–	117.8	–	–	–	117.8
Shares issued, net of expenses	39.0	12.2	–	–	–	–	51.2
Dividends paid	–	–	(61.1)	–	–	–	(61.1)
Share-based payment	–	–	1.0	–	–	–	1.0
At 1 January 2007	153.6	1,097.0	179.3	(35.9)	–	23.3	1,417.3
Net profit for the year	–	–	296.6	–	–	–	296.6
Shares issued, net of expenses	0.6	1.9	–	–	–	–	2.5
Shares purchased and cancelled	(8.4)	–	(130.8)	–	8.4	–	(130.8)
Dividends paid	–	–	(85.9)	–	–	–	(85.9)
Other	–	–	–	0.8	–	–	0.8
Share-based payment	–	–	0.9	–	–	–	0.9
At 31 December 2007	145.8	1,098.9	260.1	(35.1)	8.4	23.3	1,501.4

During the year ended 31 December 2007, the share premium account was not reduced by expenses related to the issuance of new ordinary shares (2006: £5.6 million).

Capital redemption reserve

The capital redemption reserve was a non-distributable reserve and contained the nominal value of the shares repurchased and cancelled.

Treasury shares

The Company holds shares in three discretionary trusts which were set up for the benefit of Logica employees. The trusts purchase

the Company's shares in the market for use in connection with the Group's employee share plans. The amount shown in the treasury shares reserve at 31 December 2007, which related solely to shares purchased and disposed of by the trusts, would be deducted in determining the amount the Company had available for distribution at that date.

Special reserve

The special reserve represented the reduction of the share premium account following the High Court's agreement in 1988.

► **Note XII** Reconciliation of movements in shareholders' funds

	2007 £'m	2006 £'m
Profit for the financial year	296.6	117.8
Dividends paid	(85.9)	(61.1)
	210.7	56.7
(Purchase)/sale of own shares	(130.0)	–
Shares issued during the year, net of expenses	2.5	51.2
Other movements in reserves	0.9	1.0
Net increase in shareholders' funds for the year	84.1	108.9
Shareholders' funds at the beginning of the year	1,417.3	1,308.4
Shareholders' funds at the end of the year	1,501.4	1,417.3

► **Note XIII** Share-based payment**Equity-settled share-based payment arrangements**

The Group operates seven equity-settled share-based payment arrangements: the Long Term Incentive Plan (LTIP), the Sharesave Plan, the Executive Equity Participation Plan 2006 (ExEPP 2006), the Employee Equity Partnership Plan (EmEPP) and the Executive Share Option Plan 2006 (ESOP 2006) and two further plans, the Executive Share Option Scheme (ESOS) and the Executive Equity Partnership Plan (ExEPP). Under the latter two plans, no further grants will be made as their ten-year award cycle has come to an end, but under which executives still have current awards. A summary of the main terms of the arrangements is given below, with particular reference to the terms of those grants for which a share-based payment expense has been recognised.

Long Term Incentive Plan

The LTIP is a discretionary benefit offered by the Group for the benefit of its senior employees, as well as to staff with high potential or to recognise significant achievements. It effectively supersedes the ESOS as the Company's main equity benefit discretionary plan. An award under the LTIP may be granted as a conditional allocation, a nil (or nominal) cost option with a short exercise window or as forfeitable shares. Cash-based awards of an equivalent value to share-based awards may also be granted or cash-based payments may be used to satisfy an award originally made in shares (either in whole or part), although the Remuneration Committee does not currently intend to do so. The maximum market value of ordinary shares in the Company subject to LTIP awards granted to any employee in any financial year will not exceed 200% of that employee's base salary. The intention initially is not to exceed 150% of salary.

The performance condition attached to one half of an award will require annual earnings per share growth to exceed the growth in the Retail Price Index by between 3% and 7% per annum over three financial years for between 30% and 100% of this half of the award to vest (that is, between 15% and 50% of the total award). The performance condition attached to the other half of an award will measure the total shareholder return performance (TSR) of Logica over a single three-year performance period against a number of other companies drawn mainly from the Dow Jones EuroStoxx Technology Index. 30% of this half of the award will vest if the Company is ranked in the median at the end of the performance period, with 100% of this half of the award vesting if Logica is at or above the upper quartile. The Remuneration Committee intends to review the performance conditions each year to ensure that they remain suitable and reflect the ongoing market.

Sharesave Plan

The Group operates a savings-related share option plan under which employees enter into a savings contract with a financial institution to pay a fixed monthly sum for either a three-year or, for grants before 4 October 2002, five-year period. Share options are granted at an exercise price at least equal to the closing mid-market price of the Company's shares on a day shortly before the date of grant. The aggregate exercise price payable is equal to the expected proceeds on maturity of the savings contract. Share options may be exercised within six months of the vesting date. There are no performance conditions attached to Sharesave Plan options.

Equity Participation/Partnership Plans

The Group operates an equity participation plan for senior executives, the ExEPP 2006, and in certain countries an equity partnership plan open to all employees, the EmEPP, the terms of which are similar. Under the equity participation/partnership plans, employees make an investment in the Company's shares, subject to financial limits, which must be maintained over a three-year vesting period. Vesting will occur for those participants employed at the vesting date, subject to a performance condition being met.

Under the ExEPP 2006, senior executives, in any one year, may invest in shares up to a maximum of 50% of net bonus paid. These lodged shares will be matched on a 1:1 (gross basis) (the Matching Award). Matching Award shares will be released as soon as practicable after the third anniversary of the award, subject to the stretching performance conditions having been met. The performance conditions in respect of the ExEPP 2006 have the same criteria as the Company's LTIP performance conditions described above.

The EmEPP's performance condition is based on growth in the Group's earnings per share which must exceed the growth in the Retail Price Index by an average of 3% per annum of the three years performance period for the award to vest in full. The Remuneration Committee may, at its discretion, allow Matching Awards under the EmEPP to vest pro rata if the performance condition is not fully achieved over the three-year performance period. Awards of a matching number of shares are made at nil cost to employees and are exercisable for up to seven years after the vesting date, after which the award will lapse.

Although no further awards will be made under the ExEPP there remain outstanding awards which have yet to reach their third anniversary. This plan was operated for senior executives as an equity-based investment plan subject to financial limits and the investment being maintained over a three-year vesting period. Vesting will occur for those executives employed at the vesting date subject to a performance condition based on growth in the Group's earnings per share exceeding the growth in the Retail Price Index by between 3% and 7% per annum.

Executive Share Option Plan 2006

At the Company's Annual General Meeting in 2006 shareholders approved the implementation of the ESOP 2006. This plan has been introduced to allow awards to be made to senior executives working in jurisdictions where it would be inappropriate to make an award under the LTIP. It is anticipated that performance conditions attached to any ESOP 2006 awards will have the same criteria as the LTIP noted above. As yet, no awards have been made under this plan.

► **Note XIII** Share-based payment (continued)*Executive Share Option Scheme*

No new option grants will be made under the ESOS, although options made under previous grants to senior executives and managers across the Group remain outstanding. Options are normally exercisable between three and 10 years following grant, provided that a performance condition, specified at the date of grant, has been satisfied. Typically, growth in the Group's earnings per share over the relevant three-year performance period is required to exceed the growth in the Retail Prices Index by at least 21% for the performance condition to be met.

ESOS option grants prior to 2005 have a maximum seven-year exercise period, while the exercise period for option grants in 2005 and 2006 is four years. Retesting of performance conditions may be carried out twice for ESOS options granted in 2003 but only once for options granted in 2004. No retesting is permitted for grants awarded in 2005 and 2006.

The exercise price of ESOS options is generally at least equal to the closing mid-market price of the Company's shares on the date of grant, although the pricing mechanism varies slightly for grants to French employees.

A reconciliation of the movement in the number of share options and share awards held by employees and Directors of the Company is shown below:

	2007		
	Share awards		Share options
	Weighted average exercise price		
	Number of shares	price £	Number of shares
Outstanding at 1 January 2007	6,271,987	3.00	1,280,669
Granted	6,187	1.83	1,359,945
Exercised	(858,501)	1.14	(28,158)
Forfeited	(5,156)	1.83	(958,880)
Expired	(4,682)	2.38	–
Outstanding at 31 December 2007	5,409,835	3.29	1,653,576
Exercisable at 31 December 2007	3,060,467	2.39	33,630

	2006		
	Share awards		Share options
	Weighted average exercise price		
	Number of shares	price £	Number of shares
Outstanding at 1 January 2006	6,267,833	3.00	61,751
Granted	6,790	1.93	1,218,881
Transfer of employee from subsidiary undertaking	775	2.38	37
Exercised	(2,275)	1.07	–
Forfeited	(1,136)	11.12	–
Outstanding at 31 December 2006	6,271,987	3.00	1,280,669
Exercisable at 31 December 2006	3,925,123	2.12	15,399

► **Note XIII** Share-based payment (continued)

The exercise price and remaining contractual life of share options outstanding at the balance sheet date was as follows:

2007			
Range of exercise prices	Weighted average exercise price £	Weighted average remaining contractual life Years	Number of shares
£1.00 or more and less than £2.00	1.42	4.4	2,056,818
£2.00 or more and less than £5.00	2.77	3.6	2,376,710
£5.00 or more and less than £10.00	6.53	2.5	777,212
£10.00 or more	16.26	2.8	199,095
	3.29	3.7	5,409,835

2006			
Range of exercise prices	Weighted average exercise price £	Weighted average remaining contractual life Years	Number of shares
£1.00 or more and less than £2.00	1.34	5.3	2,914,288
£2.00 or more and less than £5.00	2.77	4.6	2,381,392
£5.00 or more and less than £10.00	6.53	3.5	777,212
£10.00 or more	16.26	3.8	199,095
	3.00	4.8	6,271,987

► **Note XIII** Share-based payment (continued)

The fair value of share options and share awards granted in the 2007 and 2006 financial years to the employees and Directors of the Company and the assumptions used in the calculation of their fair value on the date of grant were as follows:

	2007		
	Share awards		Share options
	Executive	Long Term	Sharesave
	Equity Participation Plan	Incentive Plan	Plan
Weighted average assumption			
Share price on date of grant	£1.73	£1.84	£1.84
Exercise price	nil	nil	£1.83
Share options/awards granted in the year	388,595	971,350	6,187
Vesting period (years)	3.0	3.0	3.0
Expected volatility (%)	27.9	27.9	29.0
Expected life (years)	3.0	3.0	3.3
Risk free rate (%)	5.4	5.4	5.4
Dividend yield (%)	3.0	3.0	3.0
Fair value per share option/award	£1.22	£1.29	£0.39
	2006		
	Share awards		Share options
	Executive	Long Term	Sharesave
	Equity Participation Plan	Incentive Plan	Plan
Weighted average assumption			
Share price on date of grant	£1.93	£1.70	£1.93
Exercise price	nil	nil	£1.93
Share options/awards granted in the year	153,014	1,065,867	6,790
Vesting period (years)	3.0	3.0	3.0
Expected volatility (%)	–	36.8	38.5
Expected life (years)	3.0	3.0	3.3
Risk free rate (%)	–	4.7	4.5
Dividend yield (%)	2.9	3.3	2.9
Fair value per share option/award	£1.76	£1.29	£0.50

► **Note XIII** Share-based payment (continued)

The fair value of ESOS options was measured using a Monte Carlo simulation model and the fair value of Sharesave plan options was measured using the Black-Scholes option pricing model. The fair value of share awards under the Equity Partnership Plans was measured at the market share price at the date of grant reduced for the present value of expected dividends over the vesting period, for which award holders have no entitlement.

Expected volatility was determined using the historical volatility of the Company's share price over a period commensurate with the expected life of the share option. The period from 1 July 1999 to 30 June 2001 was excluded as management believe it represented a period of high share price volatility which is unlikely to be repeated in the future.

Share awards under the Equity Partnership Plans are assumed to be exercised on the vesting date. Sharesave options are assumed to be exercised three months after the vesting date, the mid-point of the contractual exercise period.

At the date of grant, it is assumed that performance conditions will be met in full. Adjustments are made subsequently, where necessary, to reflect updated assessments of whether performance conditions

will be met and the final determination on the vesting date. The share-based payment expense also takes account of expected forfeiture from the balance sheet date to the end of the vesting period following cessation of employment. A weighted average forfeiture rate of 9% per annum was assumed for calculating the share-based payment expense for the year ended 31 December 2007 (2006: 7%).

For exercises prior to the vesting date, the additional expense between the calculation date and the vesting date is immediately charged to the income statement.

The Company recognised a total expense in respect of equity-settled share-based payment arrangements of £0.9 million in the year ended 31 December 2007 (2006: £1.0 million).

Cash-settled share-based payment arrangements

The Company does not operate separate cash-settled share-based payments arrangements, however, social security obligations arising on share option and share award plans are treated as such an arrangement for accounting purposes. The liability for cash-settled share-based social security payments at 31 December 2007 was £0.1 million (2006: £0.4 million). The movement in the liability resulted in an income for the year ended 31 December 2006 of £0.3 million (2006: expense of £0.1 million).

► **Note XIV** Contingent liabilities

The Group's subsidiaries and the Company are currently, and may be from time to time, involved in a number of legal proceedings including inquiries from or discussions with governmental and taxation

authorities. Whilst the outcome of current outstanding actions and claims remains uncertain, it is expected that they will be resolved without a material impact on the Group's financial position. The Company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries.

► **Note XV** Related party transactions

The Company has taken advantage of the exemption in FRS 8 'Related Party Transactions' from disclosing transactions with other

members of the Group headed by LogicaCMG plc. Transactions with the directors of the Company are disclosed in the Remuneration Committee report on pages 56 to 73. There were no other related party transactions during the current or prior year.

► Euro translation of selected financial information

The Group has presented a translation of the consolidated income statement, balance sheet and cash flow statement into euros to assist users of the Financial statements more familiar with that currency.

The income statement and cash flow statement in euros have been calculated by converting the sterling figures to euros at an average rate of €1.46 to £1 (2006: €1.47 to £1). The balance sheet has been calculated by converting the sterling figures to euros at the closing rate of €1.36 to £1 (2006: €1.48 to £1).

► Euro translation of consolidated income statement For the year ended 31 December 2007

	2007 €'m	Restated 2006 €'m
CONTINUING OPERATIONS:		
Revenue	4,486.9	3,558.4
Net operating costs	(4,326.7)	(3,349.8)
Operating profit	160.2	208.6
ANALYSED AS:		
Operating profit before exceptional items	194.1	243.7
Exceptional items	(33.9)	(35.1)
Operating profit	160.2	208.6
Finance costs	(55.3)	(50.4)
Finance income	16.1	12.8
Share of post-tax profits from associates	1.8	0.4
Profit before tax	122.8	171.4
Taxation	(7.9)	(45.9)
Profit for the year from continuing operations	114.9	125.5
DISCONTINUED OPERATION:		
Result from discontinued operation	130.5	5.5
Net profit for the year	245.4	131.0
ATTRIBUTABLE TO:		
Equity holders of the parent	248.0	120.6
Minority interests	(2.6)	10.4
	245.4	131.0
Earnings per share from continuing operations	cents/share	cents/share
– Basic	7.9	9.4
– Diluted	7.8	9.3
Earnings per share from total operations		
– Basic	16.6	9.9
– Diluted	16.4	9.7

► **Euro translation of consolidated balance sheet** 31 December 2007

See page 160 for basis of translation.

	2007 €'m	2006 €'m
Non-current assets		
Goodwill	2,181.4	2,297.1
Other intangible assets	486.9	614.3
Property, plant and equipment	179.7	202.2
Investments in associates	3.3	8.9
Financial assets	15.0	14.9
Retirement benefit assets	16.3	27.7
Deferred tax assets	74.1	74.9
	2,956.7	3,240.0
Current assets		
Inventories	1.9	4.3
Trade and other receivables	1,388.8	1,583.9
Current tax assets	55.1	46.2
Cash and cash equivalents	147.8	262.4
	1,593.6	1,896.8
Current liabilities		
Convertible debt	(299.1)	(299.5)
Other borrowings	(132.2)	(49.0)
Trade and other payables	(1,180.8)	(1,311.9)
Current tax liabilities	(76.3)	(47.8)
Provisions	(12.4)	(30.8)
	(1,700.8)	(1,739.0)
Net current (liabilities)/assets	(107.2)	157.8
Total assets less current liabilities	2,849.5	3,397.8
Non-current liabilities		
Borrowings	(373.6)	(738.4)
Retirement benefit obligations	(68.8)	(94.9)
Deferred tax liabilities	(170.0)	(243.3)
Provisions	(25.7)	(19.5)
Other non-current liabilities	(1.0)	(1.2)
	(639.1)	(1,097.3)
Net assets	2,210.4	2,300.5
Equity		
Share capital	198.3	227.3
Share premium account	1,494.5	1,623.6
Other reserves	479.1	406.1
Total shareholders' equity	2,171.9	2,257.0
Minority interests	38.5	43.5
Total equity	2,210.4	2,300.5

► **Euro translation of consolidated cash flow statement** For the year ended 31 December 2007

See page 160 for basis of translation.

	2007 €'m	Restated 2006 €'m
Cash flows from continuing operating activities		
Net cash inflow from trading operations	381.1	356.5
Cash outflow related to restructuring and integration activities	(41.8)	(48.5)
Cash generated from continuing operations	339.3	308.0
Finance costs paid	(58.7)	(38.7)
Income tax paid	(66.9)	(46.2)
Net cash inflow from continuing operating activities	213.7	223.1
Net cash inflow/(outflow) from discontinued operating activities	10.2	(1.9)
Cash flows from continuing investing activities		
Finance income received	10.2	7.5
Dividends received from associates	1.5	–
Proceeds on disposal of property, plant and equipment	3.2	3.2
Purchases of property, plant and equipment	(51.5)	(41.5)
Expenditure on intangible assets	(19.0)	(25.1)
Purchase of minority interests	(3.2)	–
Deferred consideration and acquisition of subsidiaries, net of cash acquired	(49.9)	(585.5)
Disposal of subsidiaries and other businesses, net of cash disposed	61.3	2.8
Disposal of discontinued operation, net of cash disposed	311.2	–
Net cash inflow/(outflow) from continuing investing activities	263.8	(638.6)
Net cash outflow from discontinued investing activities	–	(8.2)
Cash flows from continuing financing activities		
Proceeds from issue of new shares	3.7	5.0
Payment for share issue costs	–	(7.9)
Purchase of own shares	(191.0)	–
Proceeds from transfer of shares by ESOP trust	1.2	–
Proceeds from bank borrowings	50.4	706.5
Repayments of bank borrowings	(298.1)	(305.8)
Repayments of finance lease principal	(6.9)	(3.1)
Repayments of borrowings assumed in acquisitions	–	(5.6)
Proceeds from other borrowings	–	0.6
Repayments of other borrowings	–	(0.6)
Payments on forward contracts designated as a net investment hedge	(9.2)	–
Dividends paid to the Company's shareholders	(125.4)	(89.8)
Dividends paid to minority interests	(0.6)	(2.6)
Net cash (outflow)/inflow from continuing financing activities	(575.9)	296.7
Net decrease in cash, cash equivalents and bank overdrafts	(88.2)	(128.9)
Cash, cash equivalents and bank overdrafts at the beginning of the year	221.8	360.5
Net decrease in cash, cash equivalents and bank overdrafts	(88.2)	(128.9)
Effect of foreign exchange rates	11.8	(9.8)
Cash, cash equivalents and bank overdrafts at the end of the year	145.4	221.8

► Five-year summary

The five-year financial summary below includes selected information on a calendar year basis, which has been extracted from audited Financial statements. The information for the years ended 31 December 2003 to 31 December 2006 was restated to show Telecoms Products as a discontinued operation.

The amounts disclosed for the year ended 31 December 2003 are presented under UK generally accepted accounting principles (UK GAAP) because it is not practicable to restate amounts for prior periods before the Group's date of transition to International Financial Reporting Standards (IFRSs) on 1 January 2004.

	UK GAAP ¹	Restated IFRS				IFRS
	2003	2004	2005	2006		2007
	£'m	£'m	£'m	£'m		£'m
Revenue	1,428.1	1,421.1	1,579.4	2,420.7		3,073.2
Adjusted operating profit	102.6	99.8	107.8	203.4		207.6
Operating profit before goodwill amortisation/ impairment and exceptional items	102.6	99.8	106.8	165.8		132.9
Goodwill amortisation/impairment and exceptional items	(130.4)	(17.8)	0.5	(23.9)		(23.2)
Share of post-tax profits from associates	0.4	0.4	1.4	0.3		1.2
Net finance costs payable	(11.7)	(15.2)	(16.2)	(25.6)		(26.8)
Profit/(loss) on ordinary activities before tax	(39.1)	67.2	92.5	116.6		84.1
Tax on profit/(loss) on ordinary activities	(6.0)	(26.1)	(28.2)	(31.2)		(5.4)
Profit/(loss) on ordinary activities after tax	(45.1)	41.1	64.3	85.4		78.7
Result from discontinued operation ²	1.4	(15.9)	4.5	3.7		89.4
Minority interests	(2.4)	(0.6)	(3.0)	(7.1)		1.8
Profit/(loss) for the year attributable to ordinary shareholders	(46.1)	24.6	65.8	82.0		169.9
Closing number of employees from continuing operations	17,825	17,914	19,734	38,789		38,740
Turnover growth from continuing operations	(14%)	–	11%	53%		27%
Adjusted operating margin from continuing operations ³	7.2%	7.0%	6.8%	8.4%		6.8%
Adjusted basic earnings per share from continuing operations ^{4, 5}	8.0p	7.1p	7.0p	10.4p		10.2p
Dividends per share ^{4, 6}	5.01p	5.10p	5.31p	5.60p		5.80p

¹ Adjusted operating profit under UK GAAP represented operating profit from continuing operations before goodwill amortisation and exceptional items. Adjusted operating profit under IFRSs is defined in Note 8 to the consolidated Financial statements.

² For the years ended 31 December 2004 to 31 December 2007, the result from discontinued operation represented the Telecoms Products operation, which was disposed on 18 June 2007. For the year ended 31 December 2003, the result from discontinued operation represented the Telecoms Products operation and other small non-core, loss making businesses within Telecoms Products, reported as discontinued in 2003.

³ Under UK GAAP, the adjusted operating margin is from continuing operations before goodwill amortisation, restructuring and other exceptional items. Under IFRSs, the adjusted operating margin is from continuing operations and before exceptional items and amortisation of those intangible assets initially recognised at fair value in a business combination.

⁴ Earnings per share and dividends per share have been restated for the bonus element of the rights issue that took place in November 2005.

⁵ Adjusted basic earnings per share under UK GAAP represented basic earnings per share from continuing operations before goodwill amortisation and exceptional items. Adjusted basic earnings per share under IFRSs is defined in Note 16 to the consolidated Financial statements.

⁶ Dividends per share are presented according to the financial year to which they relate rather than the basis of recognition for accounting purposes.



Shareholder information

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Shareholder information

Financial calendar 2008

27 February

Preliminary results announced

14 April

Annual report and AGM Notice published

16 April

Ex-dividend date

18 April

Record date

14 May

Annual General Meeting and Q1 interim management statement

15 May

Final dividend paid to shareholders

14 August

Interim results announced

17 September

Ex-dividend date

19 September

Record date

17 October

Interim dividend paid to shareholders

5 November

Q3 Interim management statement

Shareholder information online

Logica's registrars are able to notify shareholders by e-mail rather than by post, when statutory publications or communications are published on the Company's website. Whenever new shareholder information becomes available, such as Logica's interim and full-year results, Capita Registrars will notify you by e-mail and you will be able to access, read and print documents at your own convenience.

To register your interest, please go to www.logicacmg-shares.com, select 'Register New User', and follow the on-screen prompts. You will be asked to enter your unique 'Investor Code', which you will find on your dividend tax voucher, share certificate, or from Capita Registrars at the address below.

Should you change your mind at a later date, you may cancel your request to receive electronic notifications by contacting Capita Registrars by post or through the above mentioned website.

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About Logica

Logica is a leading European IT and business services company, employing 39,000 people across 36 countries. It provides business consulting, systems integration, and IT and business process outsourcing services. Logica works closely with its customers to release their potential – enabling change that increases their efficiency, accelerates growth and manages risk. It applies its deep industry knowledge, technical excellence and global delivery expertise to help its customers build leadership positions in their markets. Logica is listed on both the London Stock Exchange and Euronext (Amsterdam) (LSE: LOG; Euronext: LOG).

▶ logica.com

**More information is
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All pulps used are Elemental Chlorine Free (ECF) and the manufacturing mill is accredited with the ISO14001 standard for environmental management.

The cover is printed on Kaskad Board, which is produced using virgin fibre. The pulps used are Totally Chlorine Free (TCF) and the inks used are all vegetable oil based.

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