Releasing your potential

Annual report and accounts 2006

Many see potential...

Highlights

Revenue

+45.3%

(2006: £2,665.2m)

Operating profit

+29.7%

(2006: £155.8m)

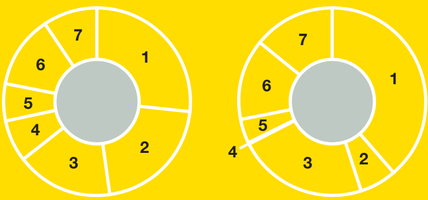
Adjusted basic earnings per share

+42.7%

(2006: 10.7p)

Revenue by geography

for breakdown see pages 27 to 33



2006: £2,665.2m

2005: £1,834.1m

1 UK
2 France
3 Netherlands
4 Nordics
5 Germany
6 International
7 Telecoms Products

Cash conversion

115%

Dividend

+5.5%

(2006: 5.6p)

Contents

...few release it

Delivering on our strategy

LogicaCMG has articulated a clear strategy for growth. We are successfully delivering on that strategy through a combination of organic development and carefully targeted acquisitions.

A transformational year

The last year has been one of major change and progress for LogicaCMG. Our businesses performed well operationally and we are pleased to have achieved another year of strong operating results. 2006 was also an important year in the strategic development of our business, one in which we significantly strengthened our footprint in Europe. We entered 2007 as a substantial European company with an extensive international network focused on IT and business services.

In 2006, reported revenues were up 45.3% against 2005 to £2,665.2 million (2005: £1,834.1 million). Operating profit increased by 29.7% to £155.8 million. Adjusted operating profit (i.e. excluding exceptional items and the amortisation of acquisition-related intangibles) was £217.3 million, up 16.5% on a pro forma (i.e. like-for-like) basis. This represents an adjusted operating margin for the year of 8.2% (2005: 7.3%). Adjusted basic earnings per share rose by 42.7% to 10.7p. We continued to deliver strong cash flow, with a net cash inflow from trading operations of £250.4 million in the year.

In January 2006, we completed the acquisition of Unilog to become the fourth largest IT services provider in France and a top ten provider in Germany. By the year-end, we had made excellent progress with integrating this business into the group, with over €100 million (£67.6 million) in cross-selling orders recorded by the former Unilog businesses over the year. These cross-selling orders typically draw on LogicaCMG's specific industry capabilities, international network and offshore resources and Unilog's strong local client relationships. They are orders that neither company would have been likely to have won independently. In Germany, following a comprehensive restructuring programme, we achieved a profit in the combined LogicaCMG-Unilog business in the second half of 2006.

In August, we announced our intention to acquire WM-data, the third largest IT services company in the Nordics. We completed the acquisition in October and are already pursuing a number of exciting cross-selling opportunities across the two businesses. In particular, we see considerable potential for introducing LogicaCMG's global service delivery model (GSD) to Nordic customers seeking to outsource IT and business processes.

Early in 2007, we announced the £265 million sale of our Telecoms Products business to an investment consortium led by Atlantic Bridge Ventures. Over recent years, we have significantly improved the profitability of this business and developed a new product range, enabling us to secure an attractive sale price for the strengthened business. This divestment allows LogicaCMG to focus on its core strengths in IT and business services. The proceeds from the sale will be used to support a £130 million share buyback, to buyout existing minority interests and to pay down debt.

The acquisitions of Unilog and WM-data have significantly strengthened our European presence and extended our range of offerings in areas such as healthcare and retail. Today, LogicaCMG employs around 40,000 people across 41 countries. We are the second largest IT services company listed in Europe by market capitalisation. By revenue, we are a global top twenty IT services company and the seventh largest in Europe. We now have the strength and scale to compete effectively for any major contract in Europe.

On track to meet our strategic objectives

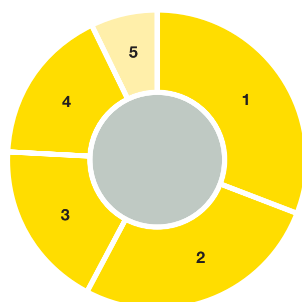
Technology has played a significant role in building today's global economy with work increasingly able to flow from one country to another with few barriers. In the IT services industry, the laws of supply and demand, and hence pricing, now have a global dimension and our blue-chip customers increasingly look for suppliers who can help them respond to this changing market. They want to do business with a smaller number of larger suppliers who can provide them with a

Earnings per share (adjusted)

2005
7.5 pence

2006
10.7 pence

Four significant profit* generators



1 UK 31%
2 Nordics 27%
3 France 18%
4 Netherlands 17%
5 International and Germany* 7%

*Chart reflects pro forma annualised 2006 adjusted operating profit based on the new group. Germany recorded a loss of £1.3 million in 2006.

For a glossary of Key Performance Indicators, see page **128**.
KPIs are identified throughout this report by the symbol

For risk factors, see page **54**.

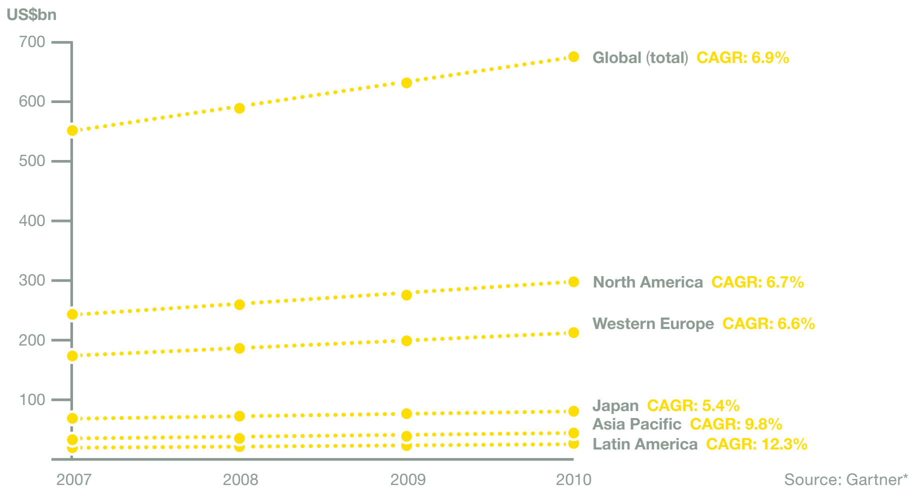
Identifying potential

We are quick to identify change in the market and have developed our business accordingly.

+5.0%

Organic revenue growth in IT services

Global professional IT services market size and predicted growth (2007–2010)



broader range of offerings and support them internationally.

Our **strategic objectives**, which were outlined in last year's annual report, have been set against this background and we made good progress towards meeting them in 2006.

To respond to the need for scale and geographical balance, we set ourselves the objective of securing **four significant profit generators** in Europe, an objective which we have now achieved. The acquisitions of Unilog and WM-data provide us with leading positions in France and the Nordics, complementing our already strong presence in the UK and the Netherlands.

We seek to maintain a **balanced market sector profile**. This helps to reduce volatility and facilitates our ability to build the in-depth industry knowledge that our customers value. In 2006, our revenues were fairly evenly spread across our five key markets – Financial Services, Energy and Utilities, Industry, Distribution and Transport (IDT), Telecoms and Media and the Public Sector. Our recent acquisitions have maintained this market balance and with the divestment of the Telecoms Products business, we now have the product independence to build on our scale and capabilities in IT and business services with telecoms and media customers.

In 2006, we also made good progress towards our target of deriving **30 to 40% of our revenues from value-based outsourcing**. This proportion has risen from 16% in 2002 to 27% in 2006. Our strength in Europe, our international network and our compelling propositions helped us to win major outsourcing contracts with blue-chip customers in the year, including ING, InBev and the UK's Department for Constitutional Affairs. We are also making good progress in cross-selling LogicaCMG's outsourcing capabilities to French customers. We were awarded three major applications management orders in the year with a major French retail customer, a major IDT customer and international gas company Air Liquide. These contracts will be partly delivered out of our service centres in India and Morocco. WM-data's expertise in infrastructure management adds further to the group's outsourcing capabilities.

We continue to enhance and **extend our Global Service Delivery capability (GSD)**. Our GSD teams are intimately involved in our customers' operations. They understand the local challenges and they speak our customers' language. Through our flexible blended global service delivery model, we provide our customers with the optimal mix of onshore, nearshore and offshore resources. This facilitates an integrated approach to IT services and enables our customers to reduce costs. Crucially, we deliver a seamless, consistent service across all the geographies in which our customers operate and we can respond flexibly to their requirements. In 2006, we increased our offshore capacity in Bangalore and opened another offshore centre in the Philippines. We also increased our nearshore presence in the Czech Republic, the Slovak Republic and Morocco. Our onshore facilities, such as our centre in Bridgend, Wales, form the front-end hubs of our GSD organisation. We continue to strengthen our capabilities onshore given the need for customer intimacy.

Our customers particularly value the strength of our value-based offerings, our deep understanding of their businesses, our track record for delivery and our extensive international network. With our in-depth domain knowledge, strong Global Service Delivery capability and international reach, we are well placed to meet our customers' needs in the years ahead.

World ranking among global IT services companies by revenue

2006
19th

2004
28th

Unilog and WM-data have significantly strengthened our position as a leading global IT and business services company.

Unilog and WM-data were carefully targeted acquisitions. Their strong cultural fit with LogicaCMG was a defining factor. We employ similar types of people, doing the same kinds of things for the same sorts of customers. Like LogicaCMG, Unilog and WM-data are high-quality businesses that deliver strong margins. This compatibility greatly simplifies the task of integration and forging a single, unified company.

By acquiring Unilog and WM-data, we have added major scale in two important markets, France and the Nordics, strengthened our position in Germany, broadened our European footprint and extended our capabilities. For example,

* Gartner Dataquest Industry Market Strategies Worldwide Vertical Forecast Database, November 2006

Extending potential

We are extending our capabilities by integrating complementary businesses.

Unilog and WM-data have provided us with a leading utilities billing solutions capability, added to our business process outsourcing (BPO) resources and brought an established management consulting capability to the group. We believe these additional capabilities will deliver revenue synergies over time.

These transactions also enable the former Unilog and WM-data operations to further grow their businesses. Both companies were important players in their respective local markets but they had reached a stage in their development where continued growth depended on having access to a wide-ranging international operation able to extend their capability to support major blue-chip organisations. They now have access to LogicaCMG's global sourcing capabilities, repeatable propositions and international network.

In integrating Unilog and WM-data, we have applied the approach we used successfully for the merger of Logica and CMG. Our focus in the integration process has been on combining the best of LogicaCMG and the acquired companies by sharing good ideas and know-how across the group. Our goal is to create one company with one set of values and one set of systems and processes.

Unilog

We have made good progress in integrating the former Unilog and LogicaCMG businesses in France and Germany. The restructuring is now complete. We have met our cost savings targets and have exceeded our revenue synergy expectations with the cross-selling contracts secured in the year.

Integration proceeded smoothly in France with LogicaCMG's French operation assimilated into Unilog. By combining Unilog's strong customer relationships and LogicaCMG's deep domain knowledge and global resources, we were able to secure a number of significant cross-selling wins in 2006 including those with major French clients, Air Liquide and Natixis. At the end of the year, we signed a significant outsourcing contract with a major French retailer. This was the largest order ever signed by the former Unilog business and is indicative of the potential of the combined operation. This contract would not have been won without Unilog's long-standing customer relationship and the strength of LogicaCMG's Global Service Delivery organisation.

The addition of Unilog's operation in Germany more than doubled LogicaCMG's presence in this important market. Restructuring was completed during the year and the business moved into profit in the second half of 2006. A strong management team is now focused on securing continued margin improvement, boosting recruitment and delivering revenue growth. The combined German operation delivered a number of cross-selling wins in 2006, including a key contract for the UN Framework Convention on Climate Change. The former Unilog team in Germany drew on LogicaCMG's emissions trading capabilities to win this important contract.

27%

Percentage of revenue from outsourcing

WM-data

The acquisition of WM-data gave us our fourth major profit generator in Europe. WM-data is the third largest IT services company in the Nordic market, with major operations in Sweden, Finland, Denmark and Norway.

In addition to its public sector clients, WM-data has a strong list of commercial clients that have extensive international operations, such as Volvo and Ericsson. It can now leverage LogicaCMG's repeatable propositions, Global Service Delivery organisation and international network. Demand for global sourcing is growing in the Nordics as companies seek to build their competitive position. As part of LogicaCMG, WM-data is now able to compete for larger international contracts with Nordic customers.

The process of integrating WM-data is underway and we have identified a number of exciting opportunities. Like LogicaCMG, WM-data is a business which prides itself on successful delivery and a thorough understanding of its customers' business challenges. There is a good cultural fit between the companies and very little geographic overlap. We expect the integration to be straightforward.

£67.6m*

Cross-selling orders from Unilog in 2006

*(€100m at £1/€1.48)

£10m

Cost savings from Unilog in 2006

Full service provision and 'releasing your potential'

Our customers demand world-class IT services. LogicaCMG is committed to helping them build and maintain leadership positions in their respective markets. We do this by using our industry and domain expertise and our strong business and technology insight.

Our services and solutions span consultancy, design, systems integration and value-based outsourcing. We have structured our business around five core vertical market sectors. This industry focus means that our services and solutions are tailored for the challenges that our customers face in their specific markets.

We exploit our mission-critical, repeatable propositions across the vertical markets and geographies in which we

Releasing potential

Through our innovative solutions and services we release the potential of our customers.

operate. Our thorough understanding of these markets means that we are often first to market with new value propositions that help our customers respond rapidly to changing market needs. We deploy strong technical and project management skills to deliver solutions on time and to budget. We recognise the importance of offering a powerful consultancy practice and will continue to grow our capabilities in this important area.

During 2006, we launched our new brand positioning to our employees, reflected in the strapline "Releasing your potential". Early in 2007, we launched a corporate advertising campaign across Europe to communicate this brand proposition to our customers and other key stakeholders.

LogicaCMG is also taking an active role in shaping our own industry by responding to the key challenges and opportunities that globalisation poses for the IT services sector. This has involved us in a dialogue with senior stakeholders across industry, government and educational institutions. In October, LogicaCMG and the Confederation of British Industry launched a report and action plan entitled "Building a Globally Competitive IT Services Industry". This outlines a number of tangible actions that need to be taken to help the UK IT services industry to thrive and prosper in the years ahead. We are working with a number of interested parties to realise this plan. In 2007, we plan to extend this initiative to other key European markets.

Global Service Delivery

Central to our ability to respond to changing market demand is our integrated Global Service Delivery organisation. International blue-chip companies have long been aware of the cost advantages of value-based outsourcing, including application management and business process outsourcing services. Increasingly, outsourcing is used to manage costs and to streamline the delivery of entire business processes, such as payroll and accountancy services.

We identified the growth in global sourcing early on and now have a powerful Global Service Delivery capability. With a network of 40 service delivery centres employing around 6,000 people, the Global Service Delivery organisation is an integral part of our worldwide offering. Our blended service model integrates onshore, nearshore and offshore centres to deliver an optimal mix of services around the clock. Whilst our established presence in local markets means that we can engage with our customers at a local level, many of our customers increasingly require their IT services to be delivered continuously, at optimal cost and with maximum effectiveness. Our blended model delivers this service and incorporates application development and support, testing, product engineering and business process outsourcing (BPO), such as finance and accounting, HR and procurement.

Our customers in the UK were early adopters of valued-based outsourcing but we are now seeing growing demand for our blended sourcing offer in continental Europe. For example, our state-of-the-art Technopolis campus in Bangalore is a vital part of LogicaCMG's application management services solution for the world's largest brewer, InBev.

Other customers have specific security concerns which mean that their projects need to be managed wholly onshore. In the case of the UK Ministry of Defence, medical records are managed from our secure onshore centre in Bridgend, Wales.

Our ability to offer a tailored, consistent and coordinated service in line with customer requirements will continue to be an important competitive differentiator for us.

Looking ahead

The last 18 months have been a period of significant change for LogicaCMG. Our increased scale, range of offerings and international presence provide major opportunities to grow and develop our business in the years ahead, to the benefit of our shareholders, our customers and our employees.

Our focus is now on delivering the benefits of the acquisitions and demonstrating the value that they bring to LogicaCMG. We remain on track to deliver the anticipated cost savings from both acquisitions and to create a single, unified company with common systems and processes. We have been pleased by our cross-selling successes in the former Unilog business and are encouraged by the opportunities that we see at WM-data. As a much larger organisation, we also believe there are opportunities for further operational improvements such as more effective procurement.

Over time, we expect to achieve an increasing share of business with our biggest customers. We will concentrate our efforts on sectors and propositions that offer the best opportunities for growth, while continuing to maintain a balanced profile between vertical markets. We will continue to recruit the right people into our organisation. Attracting and retaining talented and independent-minded professionals is a top priority and we are actively recruiting across all our key markets to meet demand.

We will continue to invest in our Global Service Delivery model to gain competitive edge. We are also strengthening our consulting capability which we believe will help us to build stronger boardroom relationships and lead to further opportunities.

LogicaCMG has built its reputation on its deep industry knowledge and track record for delivering innovative solutions that provide real business benefit. During 2007, we will continue to focus on building a world-class business that helps our customers be market leaders in their own industries.

Martin Read
Group chief executive

6,000

Employees in our Global Service Delivery organisation

Our markets today

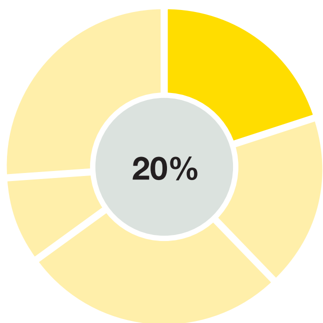
We have an excellent track record of successful delivery in five market segments. Our balanced portfolio helps insulate us against adverse market conditions.

2006 revenue by market sector (% of IT services revenue)

UK United Kingdom
Nor Nordics
NL Netherlands
FR France
DE Germany
Int International

For further examples of what we do for our customers, see **www.logicacmg.com**

Financial Services



Revenue growth by key location

UK	Nor	NL	FR	DE	Int
29.1%	100%	15.9%	12.4%	(0.8%)	8.5%

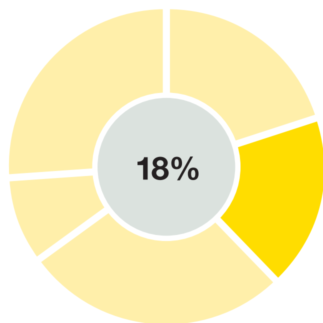
Top five clients

ABN AMRO
BNP Paribas
Crédit Agricole/Crédit Lyonnais
ING
Rabobank

Highlight of 2006

A €200m outsourcing contract with ING for application management and managed testing (see page 17).

Energy and Utilities



Revenue growth by key location

UK	Nor	NL	FR	DE	Int
(29.7%)	27.5%	8.1%	21.6%	40.7%	(3.8%)

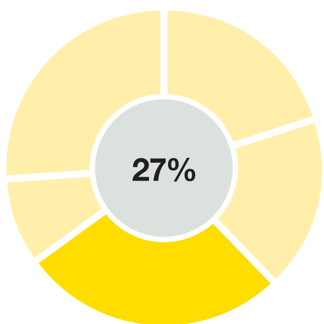
Top five clients

BP
E.ON
Electricité de France
Energias de Portugal
Shell

Highlight of 2006

A seven-year contract with a major oil and gas company for exploration and production IT support (see page 18).

Industry, Distribution and Transport



Revenue growth by key location

UK	Nor	NL	FR	DE	Int
6.4%	1.1%	5.0%	(1.9%)	(15.2%)	18.8%

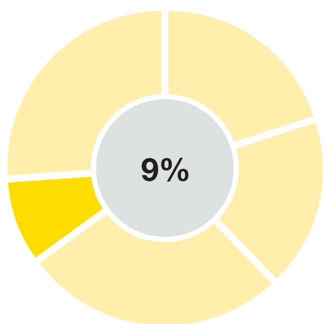
Top five clients

Deutsche Post World Net
Dutch Railways
Ford
InBev
Philips

Highlight of 2006

A 5.5 year contract to manage InBev's entire European and global HQ business systems (see pages 19 and 22).

Telecoms and Media



Revenue growth by key location

UK	Nor	NL	FR	DE	Int
7.8%	(8.0%)	3.6%	16.4%	78.3%	84.1%

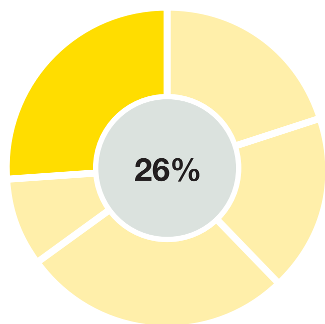
Top five clients

Deutsche Telecom/T-Mobile
France Telecom/Orange
Hutchison 3G
Telefonica/O2
Vodafone

Highlight of 2006

Significant revenue from a new-start mobile telecoms operator, Natrindo Telepon Seluler, in Indonesia (see page 22).

Public Sector



Revenue growth by key location

UK	Nor	NL	FR	DE	Int
1.8%	(0.7%)	9.9%	(3.0%)	40.7%	26.4%

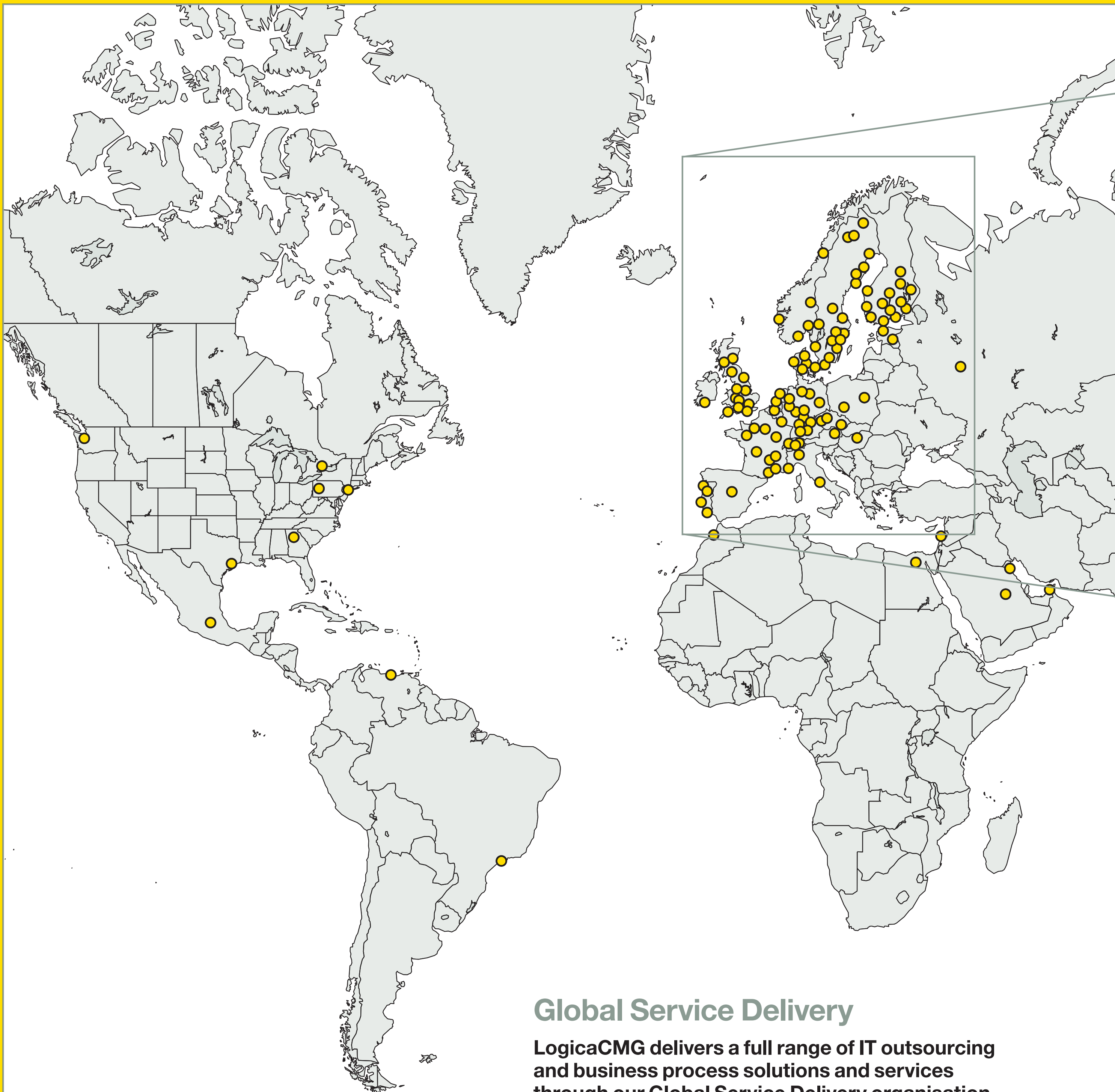
Top five clients

NL Defence
NL Home Affairs
UK Crown Prosecution Service
UK Defence
UK Health

Highlight of 2006

A seven-year, £150m application services contract with the UK's Department for Constitutional Affairs (see pages 24 and 25).

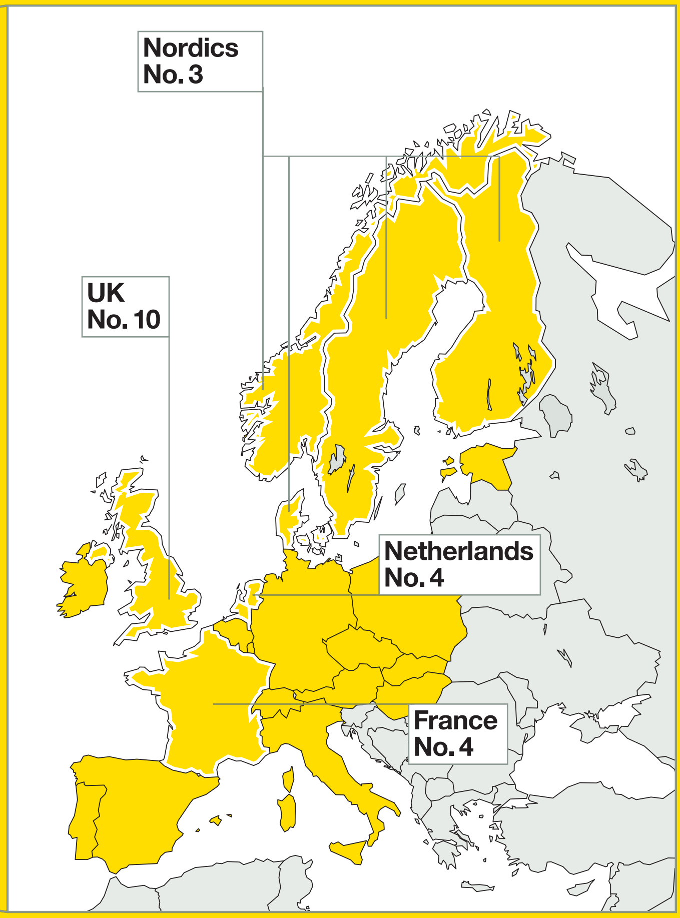
Our global position



Global Service Delivery

LogicaCMG delivers a full range of IT outsourcing and business process solutions and services through our Global Service Delivery organisation.

Our 'blended sourcing' model mixes onsite, onshore, nearshore and offshore resources to deliver services to our customers at the right cost, quality, performance, security and risk. This model uses people, process and technology to deliver an integrated service locally to our customers.



Source: LogicaCMG

Key markets and positions in Europe

We are a tier-one European IT services supplier with leading positions in the United Kingdom, France, the Netherlands and the Nordics. We are ranked seventh in Europe by revenue* and have a strong international network.

* Source: PAC Core IT Services, LogicaCMG

Our market capabilities

We have a thorough understanding of the markets in which we operate. We develop the solutions our customers require to grow their business.

Financial Services

We ended 2006 with healthy order books in both banking and insurance. For the second year running, we have increased our market share in Financial Services. Revenue was up by 16.6%; double the underlying market growth of around 6 to 8%.

Our strength in Europe continues to pay dividends. The UK, Netherlands, France and the Nordics all performed well. And we had significant successes in Asia-Pacific and the Middle East.

The potential
Global spending on external IT services by financial services customers is poised to top US$160 billion in 2007*. Around a quarter of that spending is in Europe.

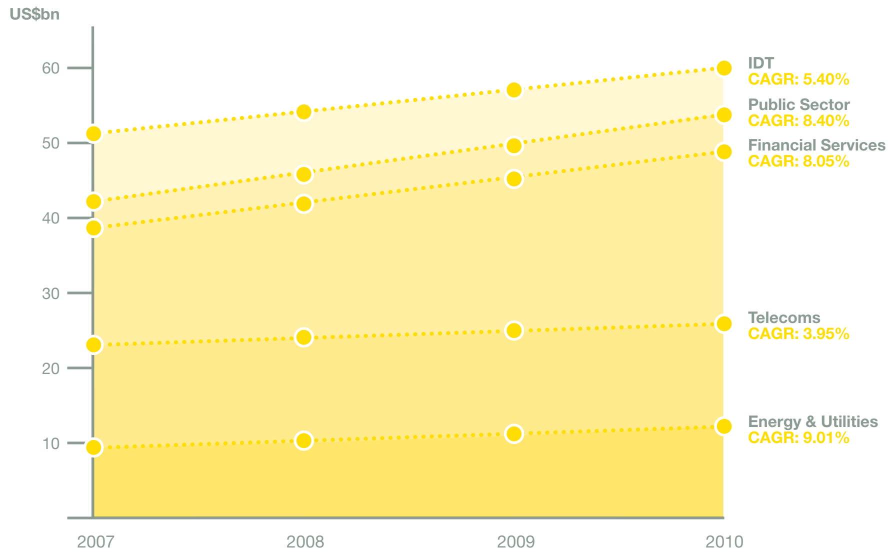
The financial services industry is at the cutting edge of globalisation. Retail and corporate banks pursue global strategies; securities exchanges and clearing houses are forging international links. This is matched by global sourcing strategies for technology and certain business processes at leading financial services institutions.

In the insurance industry, cross-border entities are becoming the norm, but the rapid consolidation of ownership across Europe has not yet been matched by globalisation of process and IT systems. This looks set to change. Market participants recognise that this can lower costs, while also reducing operational and legal risks. It can also help them to improve service and the clarity of their offering to customers.

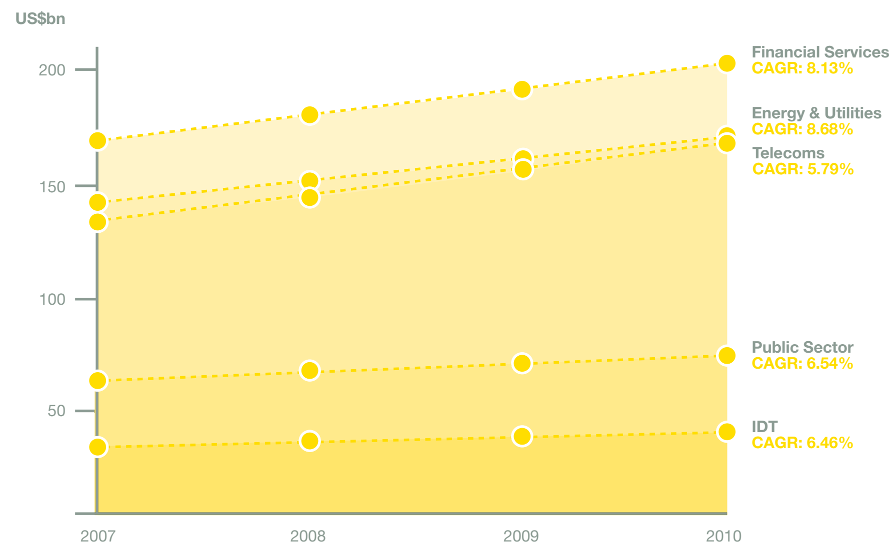
Regulatory change is a key driver for IT spending. As new statutory requirements are introduced financial institutions are being forced to update their systems to comply. This process often leads to more fundamental reviews and triggers business transformation initiatives.

Projected market growth by line of business (2007–2010)

Western Europe



Global



Source: Gartner*

The Markets in Financial Instruments Directive (MiFID) will introduce a single market and regulatory regime for investment services across the European Union. EU regulators are implementing the Payment Services Directive (PSD) and, within the eurozone, the Single Euro Payments Area (SEPA), to reduce the cost of cross-border transactions. These developments are encouraging banks to develop EU-wide compliance capabilities and payments infrastructures. During 2007, high-volume SEPA testing will be a significant, although one-off, need.

Strategically, there is a growing recognition among financial institutions of the need to drive out efficiencies by transforming their back office organisation,

*Source: Gartner Dataquest Industry Market Strategies Worldwide Vertical Forecast Database, November 2006

Natixis Assurances

A case study

Natixis Assurances, the insurance subsidiary of Natixis, is a holding which combines various operational subsidiaries of insurance. Natixis Assurances is pursuing a programme to achieve strong growth in a highly competitive market. The insurer has a technology-led strategy. It recognised that its existing IT system, responsible for over 1.2 million personal life assurance contracts, was compartmentalised and outmoded. This was constraining the growth of the business. In early 2005, Natixis Assurances began the search for an IT partner capable of taking on a project to rebuild its core systems from the ground up.

LogicaCMG won the contract to design, build and manage the transition to an integrated life insurance IT system. It is now working closely with Natixis Assurances on a major restructuring programme of the insurer's existing information systems. Such a large-scale and complex project depends on close cooperation between the customer and the IT provider. LogicaCMG's extensive know-how and professional expertise in the insurance sector is invaluable.

When complete, the new system will equip the company with a single, consistent view of all its insurance quotations to clients. Natixis Assurances will gain a new level of management control which will allow it to revitalise its product range, raise productivity and optimise its customer services.

energieclearingHouse

A case study

The energieclearingHouse Foundation (ECH) was set up in 2001 by leading Dutch utility companies to support the liberalisation of Holland's energy market. ECH is an impartial institution, which supports the transfer of information between the many different parties involved in the transport and delivery of energy. For energy businesses it delivers significant cost savings, since the IT functionality is maintained centrally at the ECH.

LogicaCMG designed and built the system that is at the heart of ECH. It also hosts and manages it and provides consultancy services to ECH management.

To date, 20% of residential and 70% of business customers have switched suppliers through the ECH system; it handles up to a million client-related messages a day – around 98% of the Dutch energy market.

Throughout its five-year history ECH has always been able to rely on robust extensions to functionality being delivered on budget and on time by LogicaCMG. When the ECH renewed its asset and information management systems contracts with LogicaCMG in 2006, to the end of 2009, it commended LogicaCMG's professionalism and acknowledged it as a key strategic partner.

processes and systems. For many, the transformation and automation of the back office goes hand in hand with an increased emphasis on innovative customer service.

Retail banks and insurers are becoming more focused on individual customers. Customer data integration is gaining ground as they invest in technologies that help to build client loyalty and deliver targeted customer offerings.

There is growing interest in insurance automation to reduce administration costs, especially in life and pension businesses. As standardised solutions gain greater acceptance, major packaged solutions which deliver service-oriented architecture, such as SAP, are likely to gain traction.

The trend for outsourcing application development plays to our strengths as a financial services specialist with a leading global service delivery model. There is increased appetite in the banking industry for business process outsourcing (BPO) solutions, driven in part by the need to handle SEPA-related payments processing. In insurance, BPO services for routine administration are becoming more common.

Our capabilities

Our banking proposition stretches across payments, financial services transformation and risk and compliance. A highly capable and modern software product set underpins our service capability. For example, we provide a clearing and settlement solution and have products to address financial crime. Our software application, LogicaCMG All Payments Solution (LAPS), includes a high-volume payment system which meets the need of our customers for faster, more efficient payments processing.

We have a strong track record in payments processing and a solid understanding of the changing regulatory environment. Our LAPS application is well established in the market and is creating major opportunities. The contract to implement SEPA payments processing for a leading German bank was an important win during the year. In addition, we have won key work with a number of institutions, including a leading Belgian bank, to deliver their SEPA testing.

We have worked with 40 of the world's top 50 banks, including ABN AMRO, Barclays, BNP Paribas and JP Morgan. During 2006 we signed several major contracts and developed our strategic relationships with some of the world's largest financial institutions. A notable success during the year was a €200 million outsourcing deal signed with ING. This is an application management and managed testing outsourcing contract that includes staff transfer in mainland Europe. Our blended service model provides customers with the right mix of onshore, nearshore and offshore facilities to meet their business needs.

Customers increasingly call on our consultancy capability to help them solve complex business problems. We undertook a major project this year to completely transform the systems and processes for the National Bank of Kuwait.

In insurance, we are also active internationally. We are re-engineering back-office systems in France for BNP Insurance. The application development contract that we won with Natixis Assurances, the insurance subsidiary of the Natixis Bank, demonstrates the strength of bringing together strong customer relationships at Unilog with LogicaCMG's leading Global Service Delivery capability. In the UK we are delivering managed testing services to Legal and General and are providing complete IT systems to Skandia Bank in the Nordics.

Several of our financial services propositions draw on LogicaCMG's expertise in other domains. Our e-identity offering is helping banks to combat electronic fraud. It combines our experience gained in financial services with our knowledge of biometrics. Similarly our e-invoicing expertise strengthens our clearing and settlement capabilities in financial services.

With nearly 40 years of experience in the financial services industry, LogicaCMG has credibility and know-how. We are a leader in payment services and deliver innovative solutions across the banking and insurance sectors. International financial institutions favour fewer, trusted suppliers, who can support them with a global service, and who they believe have the capability to help them truly transform their business. LogicaCMG is part of that select group.

Energy and Utilities

Against a backdrop of growth in underlying markets, LogicaCMG's Energy and Utilities division increased its order intake and revenue in most major geographies.

Our oil and gas business showed solid growth in 2006. We will continue to develop our capabilities in this sector and are focused on maintaining our working relationships with important customers like Statoil and Total.

Revenues in 2006 were down slightly as a result of disappointing orders in 2005, particularly in the UK. However, we ended the year with a stronger order book showing increased business from existing clients and the addition of some important new clients.

The potential

Industry analysts estimate that combined global IT spend in the energy and utilities sector will reach US$73 billion in 2007 (source: Energy Insights, an IDC company). Cost, competition and compliance are three key drivers for energy and utility companies. Considerable economies of scale remain in the energy and utilities markets and the move towards outsourcing will continue.

Energy costs are at historically high levels; infrastructure and workforces are ageing. Energy producers want to maximise their return on assets. Utilities, looking for secure sources of supply, are diversifying their fuel mixes and asset bases. Our customers need real-time network information, sophisticated knowledge management systems and secure data management to assist them in responding to these business challenges.

Transmission and distribution companies must contend with increased competition and the growing internationalisation of their businesses. Increased competition is triggering restructuring, often as a result of mergers and acquisitions. International M&A activity is likely to accelerate as markets deregulate and national operators look to foreign markets to grow their business.

New global businesses are being created and they will need to consolidate systems and make use of BPO services to optimise their cost bases and entrench efficiency gains. These trends will open the door to partnerships with IT service providers

Cost, competition and compliance are the three key drivers for Energy and Utilities customers.

who can support customers across multiple geographies.

These international businesses face complex regulatory challenges. They will have to comply with regulatory demands in multiple jurisdictions, without imposing undue burdens on their operations.

Environmental and financial transparency considerations continue to move up the agenda. There is a worldwide trend towards closer oversight and more detailed reporting. Market participants are looking for a services partner who can help them respond strategically in this changing environment.

Our capabilities

LogicaCMG's broad portfolio of energy and utility solutions and services spans upstream and downstream oil and gas, competitive markets, enterprise asset management, the environment, energy efficiency and compliance. Our knowledge – of our customers, their industries and the latest market trends – gives us the ability to support our blue-chip clients highly effectively.

To address cost concerns, we help our customers enhance their operational excellence, with enterprise asset management systems, including geospatial information systems (GIS), mobile workforce solutions and real-time asset management. We have developed a mobile asset management system for France's Veolia Propreté and we are upgrading and merging the GIS systems of Australia's Citipower and Powercor into a single unified system. In Brazil, one of the world's largest water supply and management companies is using LogicaCMG's GIS systems, enabling them to standardise network information and allow wider access to data throughout the company.

In the upstream oil and gas sector, companies are putting more emphasis on replacing depleting reserves. There is increased demand from existing and new customers for our enterprise asset management and analytic systems. For example, enhanced oil recovery is enabled through improved reservoir modelling and production technology in areas like well design, well stimulation and sand control. We provide exploration and production information management and a dedicated service desk to the whole of Statoil.

Downstream, the focus is on operational excellence and customer care. For Total, we deploy IT systems to support their refining and marketing business. For other major oil companies we deploy supply chain management solutions and for major companies like ExxonMobil and Statoil we deliver payment and loyalty card solutions.

LogicaCMG is one of a small number of SAP global partners. We develop customised solutions using SAP components. Our €18 million outsourcing contract with a major Latin American energy company supports SAP applications across 14 subsidiaries. We worked closely with SAP on the development of their next-generation energy and utility solutions and have agreed a €20 million contract with EDF to operate and support their use of SAP's industry-specific offering for utilities business (SAP IS-Utilities).

Our Global Service Delivery capability is an important strength, which helped us secure several major deals in 2006. A seven-year contract with a major oil and gas company for exploration and production IT support was a significant win. There were substantial outsourcing contract renewals with Hydro Tasmania and Sydney Water in Australia and a four-year deal with the energieclearingHouse in the Netherlands.

We continued to work closely with regulatory bodies on infrastructure to support international emissions trading. For example, we are implementing and supporting a complex infrastructure project for the United Nations which will allow transfer and monitoring of emission quota units between national registries. This will help to realise the Kyoto Protocol on carbon emissions.

Climate change is having a major impact on our customers. Major energy users are already using technology to make the most of existing resources and to help identify new energy sources, while driving down costs. LogicaCMG's automated meter infrastructure propositions are core technologies here and the WM-data acquisition has strengthened this capability. LogicaCMG is also developing a control and management system for 48 windfarms across Iberia for Energias de Portugal. Developing these propositions further will be a key priority in 2007.

The WM-data and Unilog acquisitions brought us significant new clients such as Total, EDF, Statoil and Hafslund. We are now a much larger player in the energy and utilities space and will take full advantage of our increased scale during 2007. We have, for instance, identified important cross-selling opportunities in the Nordics and the Baltic states and we will actively pursue these in the coming year.

We continue to focus on building our share of wallet in strategic accounts. During the year we signed a number of major framework agreements with key utility companies across Europe. We have developed a strong portfolio of offerings in Energy and Utilities, and are well positioned to benefit from the growth opportunities in this important sector.

InBev

A case study

InBev is the world's leading brewer, active in over 130 countries and employing more than 86,000 people worldwide. The company is transforming itself into a leading global business: a strategy which implies more streamlined and centralised IT services.

To help realise its vision, it sought out suitable external partners. LogicaCMG's close understanding of InBev's business, its flexible approach and a previous successful relationship in Germany were all cited when InBev made LogicaCMG its strategic partner for application management.

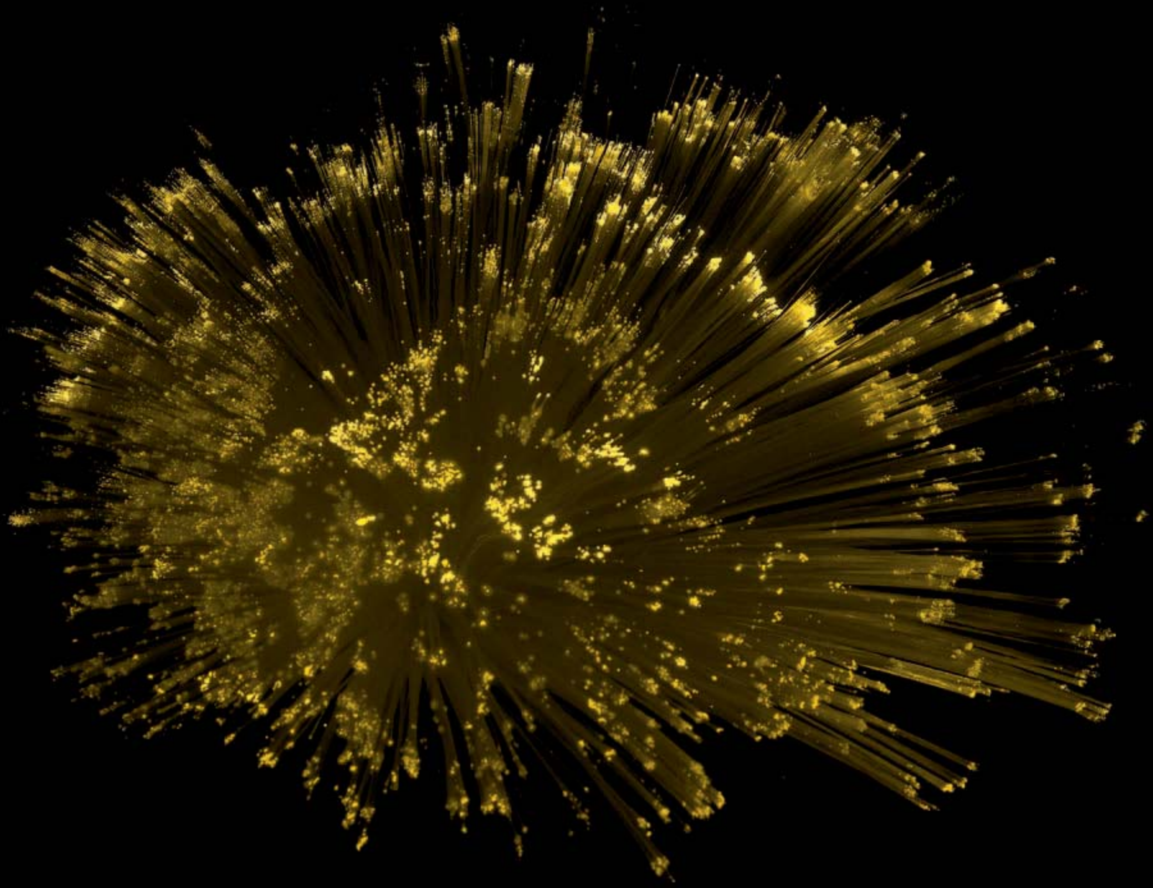
InBev wanted to focus first on its regional capabilities. It signed a €70 million five-year contract with LogicaCMG in June 2006 to manage its Western Europe and global headquarters business systems. Six months later, the contract was extended to cover Central and Eastern Europe.

Under the agreement LogicaCMG manages InBev's core applications, including a new SAP-based ERP system. It also supervises subcontractors and other service providers. And LogicaCMG has taken on 110 InBev employees.

The result: an application service environment which harmonises operations in 17 countries spanning 12 time zones – from County Cork to the Bering Strait. InBev has reduced operational costs, improved service levels and is gaining broad business benefits.

BT

A case study



British Telecom's (BT) largest ever capital expenditure project is underway. The fixed-line operator is replacing its public switched telephone network (PSTN) with the next generation 21st Century IP-Network (21CN).

BT's current network includes 15,000 core fibre cables, which deliver high bandwidth services to UK businesses. It plans to integrate these into 21CN. To do that it needed better quality information about these assets. It was a major logistics and management challenge.

BT selected LogicaCMG for a proof-of-concept project and subsequently asked it to implement its approach nationwide. LogicaCMG manages the entire programme and co-ordinates sub-contractors in the field and offshore software firms.

LogicaCMG's proactive approach has helped BT to avoid unnecessary costs. For instance, less than 10% of the cables have had to be physically tracked to identify those which may need reconfiguration, as against the 25% that had been expected. Thanks to LogicaCMG's investigative and management expertise, BT has saved around £3 million since the start of the project in September 2005.

With over 10,000 records on the system, the project is on budget, on time and nearing completion. The electronic records are helping BT planners to confirm the resilience of the network as they roll out 21CN across the UK.

Several significant IDT wins in 2006 confirmed the strength of LogicaCMG's Global Service Delivery capability.

Industry, Distribution and Transport

LogicaCMG had a good order intake in the Industry, Distribution and Transport (IDT) market during 2006 with growth in our main European markets. Overall, revenues grew 1% during the year against market growth of 3 to 5%.

LogicaCMG is now a major player in Europe's manufacturing, retail, pharmaceutical and transport sectors. Unilog and WM-data have added strong IDT capabilities and we see significant cross-selling opportunities within this market sector.

The potential

LogicaCMG serves diverse companies across the industry, distribution and transport sectors. Common to all sectors is a focus on business innovation as a means of delivering competitive advantage and defending market share. Across these sectors, it is increasingly important for business partners to be agile and capable of responding swiftly to shifts in demand. Most organisations recognise that innovative technologies will help them achieve this. They are automating manufacturing processes to accelerate production cycles and enhance product flexibility, using data mining to build closer links with customers and deploying wireless technologies to track orders and improve logistics.

In manufacturing, businesses are investing in IT to optimise their supply chains and increase operational efficiency. They are developing global production models. There is a shift from just in time (JIT) delivery to JIT production as manufacturers seek to reduce costs, minimise inventory levels and become more responsive to customer demand.

These trends are spurring increased automation at all stages in the supply chain, requiring organisations to demand real-time systems that can manage production on an enterprise-wide basis.

Developing closer relationships with customers is a key driver for business transformation. In the retail sector, the major players are building market share through brand differentiation. They are turning to data mining and analytic tools to enhance per customer revenues and to integrated customer relationship management (CRM) solutions to distil point of sales data into management information that informs successful marketing strategies.

Addressing higher energy costs and environmental concerns are key priorities for transport companies. They look to transport management solutions that incorporate real-time data and location-based services to better manage their assets, minimise costs and maximise customer benefits. Public transport operators are looking for mobile ticketing solutions and real-time travel information services. Fleet managers need fuel consumption and location-based data. Road pricing initiatives require location-aware tariffing systems.

World-class organisations no longer compete on cost alone. They are seeking suppliers who understand their priorities and can offer an integrated approach to IT and business services.

Our capabilities

LogicaCMG's technological solutions and services help businesses in distribution and transport and across various industries – including logistics, manufacturing, retail and automotive – to compete effectively and build market share. Our customers are international organisations; among them are Deutsche Post World Net, Philips, Carrefour and Ford. As a top three provider of manufacturing execution systems (MES) and a first-rate systems integration partner with a powerful outsourcing capability, we are able to meet our customers' demand for global sourcing and their production priorities.

We have a strong track record of designing and implementing CRM systems. Our expertise in data mining and business analytics is helping businesses understand their customers better. For example, LogicaCMG's CRM solution for Philips Luminaires uses the SAP Enterprise Portal to equip front-line teams with customer information; it is reducing management overheads and generating sales.

We deliver global solutions as a leading system integrator and SAP specialist. LogicaCMG has established strengths in enterprise asset management and we are helping our customers to standardise and optimise their production processes.

Transport represents an important part of our business in the IDT market segment. LogicaCMG has built up significant domain knowledge. Our intelligent transport systems are helping transport and logistics companies to map vehicles, capture real-time locational data and improve customer service. We are developing smart retailing transport solutions using smartcards, Radio Frequency Identification (RFID) and other mobile technologies.

For instance, we provide back office and settlement services to Scotcard, the smartcard-based concessionary travel scheme for the Scottish Executive. For French railway operator SNCF, LogicaCMG has developed a mobile solution which allows its 12,000 inspectors to check tickets using Wi-Fi-enabled PDAs. This won the best mobility project award in the major company category at the 2006 Mobile Office Show. Similarly, we helped to equip the mobile workforce at Nederlandse Spoorwegen, the Dutch rail operator, with real-time information, greatly improving efficiency and customer communication. Most of our larger IDT customers are outsourcing an increasing proportion of their non-core activities. Several significant IDT wins in 2006 confirmed the strength of LogicaCMG's global service delivery capability. These included application management contract wins with Lotus Cars, InBev and Air Liquide. Global sourcing is also gaining momentum in France and in the Nordics. Our integrated GSD service centre has an outstanding track record in business process outsourcing. In payroll, for instance, LogicaCMG produces pay slips for over 60 million employees.

Our innovative approach and technical and domain skills are creating new opportunities. We are currently developing transport solutions, which leverage expertise gained from the Galileo satellite project, and we are pioneering new applications in the emerging area of Near Field Communications (NFC). We also have a strategic partnership with Philips Applied Technologies to manage, develop and support embedded software in Philips products.

Our customers require innovative solutions and services to help them transform their businesses. They operate in a global market and they want a reliable partner who can deliver global solutions. With its sound IDT domain knowledge, innovative technologies and strong international network, LogicaCMG is just such a partner.

Telecoms and Media

Overall, our revenue in the Telecoms and Media space in 2006 increased by 24% due to significant growth following a major contract win in Asia. This compares favourably with estimated 6 to 9% market growth.

Total revenue was split fairly evenly between our Telecom Solutions (48%) and Telecoms Products (52%) operations. The revenue growth was in Telecom Solutions, mainly driven by major wins in 2005 such as PT Natrindo Telepon Seluler (NTS) in Indonesia, managed testing for a major global operator and HR payroll support for KPN. We are performing particularly strongly in a number of key regions, notably the Netherlands, Germany and France.

Following the sale of our Telecoms Products business, announced in early 2007, our focus is on building our capabilities in the services and solutions market in telecoms and media.

The potential

In a fluid, fast-changing environment, three trends dominate: consolidation – driven by the need for global economies of scale as well as growth; convergence, in the fixed/mobile space and with broadband networks and media services; and new content innovation, to attract customers and drive revenues. Both opportunities and challenges arise from these dynamics.

Customer centricity is a key consequence of these trends, leading to the need for more sophisticated and integrated customer care and channel management. This requires knowledge about the customer and an insight into their usage and needs. This in turn requires a community approach and comprehensive data integration.

In Europe, operators face a mature, saturated and highly competitive market. They focus on cost reduction and on differentiation through service innovation to deliver growth and improved margins. The Asian market is very consumer-led and service innovation through content management and service quality are major market drivers.

The traditional cash generator for network operators, voice-based service, is being eroded by non-traditional players like Google and Yahoo! who can deliver voice and data services at far lower marginal costs. Traditional operators have a different cost structure and struggle to compete effectively in this space. A principal challenge for them is to manage the decline in their voice revenue. There are two main approaches: finding ways to optimise their cost structures and compensating for their losses through the introduction of new, high-value services.

Fierce competition is forcing operators to take further measures to optimise their cost bases. It is driving industry consolidation and promoting business process automation and other mechanisms that reduce operating expenditure. Larger global players are emerging as consolidation takes hold. They require services and solutions that will help them integrate their networks and businesses. The same competitive pressures are stoking the demand for outsourced IT and business process services.

Convergence is a continuing theme with a requirement for greater innovation. In order to attract and retain customers, the operators need to provide interesting and diverse services. To succeed, convergent businesses will need to build content and media delivery services with fully integrated, single networks, which provide straightforward services to their customers. This is prompting significant investment in next generation networks, systems and services. An interesting consequence is the emergence of new business models and partnerships.

Our capabilities

Our Personal Services Portal (PSP) is meeting consumer demand for web personalisation with products such as secure mail and social networking sites. Our customers use these products to deepen relationships and defend market share. We work in partnership with our customers to minimise the risk of trialling new services. Our PSP products receive royalties from sales to consumers instead of charging the customer direct. These and other innovative solutions are helping telecom participants to deliver new services across their networks.

Innovation is a key competitive differentiator. It is critical that new services perform effectively and that they are integrated in an end-to-end fashion across the network. Our systems integration expertise helps our Telecoms and Media customers to go to market more quickly,

UK Ministry of Defence

A case study

The UK's Ministry of Defence (MOD) is transforming medical care provision for its 200,000 military personnel.

LogicaCMG is providing a 10-year service to deliver the Defence Medical Information Capability Programme (DMICP), an integrated set of healthcare and dental systems tailored to the MOD's requirements.

For the first time, doctors and dentists in the armed forces will have immediate access to medical records anytime, anywhere: in peacetime or on the battlefield.

As the £80 million programme is delivered, today's paper-based systems will be replaced by a single, central database hosted at LogicaCMG's secure facility in Wales. Medical teams in conflict zones will be able to access up-to-date patient records on hand-held devices.

Clinicians will have instant access to extensive reference material and in 2010 patient information will be exchanged with the NHS for secondary care. This will enable them to deliver better, quicker treatments to their patients. Commanders and staff will also have data mining and analytical tools to investigate disease incidence, battle injuries and the efficacy of specific treatments.

This mission-critical and software-intensive integration programme will improve patient care and overall efficiency, allowing the MOD to maximise the number of people who are fit for task at any one time.

Our systems integration expertise helps our Telecoms and Media customers to go to market more quickly, giving them critical competitive advantage.

giving them critical competitive advantage.

With launch time-frames for new services measured in days rather than months, risks of inadequately tested services are high. LogicaCMG's managed testing services automate as much of the testing process as possible, using proven industry-standard methodologies to achieve consistent, first-time testing, which is fully integrated with all related systems such as provisioning and billing. For a major global telecoms operator, we provide a provisioning solution and run managed testing services to support their innovation programme.

We are leaders in billing and payment systems and are applying these skills to help our customers bring innovative services to market. Our billing solutions help operators to innovate rapidly and reliably, without having to modify their core billing platforms. We manage billing services for France Telecom and other leading names.

Many operators are transforming their systems and processes to deliver converged multi-media services across both fixed and mobile networks. We provide technology-based solutions coupled with business change management to help our clients to succeed in the emerging market for voice, data and media services. We are working, for instance, with leading Dutch telecoms operator KPN to help integrate disparate systems and processes as it combines its fixed line and mobile networks.

Our ability to develop technical applications which help our customers fulfill their commercial requirements was demonstrated by our work with a major telecoms operator and leading Swiss retailer. The mobile operator chose our hosted mobile virtual network operator (MVNO), managed from a nearshore service centre, for a successful pay-as-you-go M-Budget Mobile service launched in partnership with supermarket giant Migros.

Operators rely on Service Level Agreements (SLAs), which guarantee quality standards to their customers, to differentiate themselves from their competitors. We provide systems that monitor and collect the technical information needed to support SLAs and offer solutions that transform that data into valuable customer information. Such services will become increasingly important as content-rich applications become more prevalent in the future.

Customer profiling is moving rapidly up the agenda for operators worldwide. Our capabilities in business analytics and data mining technologies have been significantly strengthened by the addition of Unilog and WM-data to the group. Both have strong customer relationship management (CRM) offerings in telecoms.

At a time of great change our customers want suppliers who are reliable partners. IT providers need to deliver adequate logistical support, offer comprehensive outsourcing capabilities and deliver an end-to-end portfolio of solutions and services, with aggressive pricing to match. LogicaCMG is ideally placed.

Public Sector

LogicaCMG is active right across the Public Sector, including health, education, justice, space, defence, intelligence and security. Revenue was up 4.2% in 2006. Despite budgetary constraints, we are seeing strong demand for our core capabilities and services and continue to build on a strong outsourcing base in the UK.

In the UK, we had a healthy order backlog, with existing contracts providing a strong underlying revenue stream into 2007. In the Netherlands, we maintained our status as a top-three provider of IT services to the public sector.

The potential

Many analysts expect that government spending will tail off further between now and the end of the decade. In the UK, which is our largest market for public sector business, year-on-year budget growth is essentially flat. In addition, the efficiency improvements driven by the Gershon Review require at least 2.5% year-on-year cost savings in government departments.

Internationally, public sector reform is focusing on government transformation and the provision of citizen and business-centred services with an increased recognition of the value of sharing services between departments or outsourcing of business processes to deliver cost efficiencies. This is reflected in the UK government's Transformational Government agenda and implementation plan issued in 2006.

Public service providers want to work with IS/IT service providers who are able to deliver integrated services and can partner with them to deliver transformation and tangible business benefits. With a continued emphasis on the need for business-led programmes and value-added services, the complexity and scale of future initiatives will increase. In addition, consulting services are becoming an increasingly significant component of the services required by our public sector customers as they seek to leverage business benefit. They are involving potential providers at an earlier stage in the procurement process to shape requirements.

Heightened security considerations and the need for secure borders and information processes remain at the top of government agendas. As a result of our pioneering work on identity management we are well positioned to benefit from growth in this sector.

In IT-related programmes in the UK Defence sector, there is scope to extend existing projects and a number of key programmes which are entering the early stages of procurement. Within the space market, the ESA-led ExoMars mission will generate further opportunities. Military satellite communications, satellite navigation and earth observation continue to be important growth areas.

Our capabilities

Government departments and agencies continue to place a significant emphasis on the surety of delivery, management of risk and realisation of benefits. LogicaCMG has a demonstrable track record of almost 40 years in delivering mission-critical complex programmes which yield business benefit and value, on time and to budget.

In the Netherlands, we have secured key contracts to support the Centre for Work and Income and the Unemployment offices. In France, LogicaCMG's data management systems will be employed by market-leading polling organisation TNS Sofres for the 2007 presidential and legislative elections.

At supranational level, the EU Taxation and Customs Union Directorate General relies on LogicaCMG to manage the quality assurance and quality control of all its IT projects.

LogicaCMG has developed particular strengths in the justice and education sectors. In the UK, key outsourcing wins this year included a seven-year application services contract for Development, Innovation and Support Contracts (DISC) with the Department for Constitutional Affairs (DCA), estimated to be worth in excess of £150 million to LogicaCMG. In our partnership with the Crown Prosecution Service (CPS) to deliver the COMPASS programme, we built, and now support, a national electronic case management system to facilitate more than 1.3 million prosecutions annually in England and Wales.

Our understanding of the education sector was key in securing a high-profile contract to implement an online clearing system for UCAS, the UK university and college applications agency. This system is now being extended to post-graduate applications. Other significant education wins during 2006 included an extension to our contract with the UK's Office for Standards in Education (Ofsted) and the Managing Information Across Partners (MIAP) Programme for the Learning and Skills Council.

The use of shared services and business process outsourcing (BPO) by government departments, agencies and local authorities to achieve more cost-effective and efficient delivery of services continues. In the Netherlands, for instance, the LogicaCMG-developed e-procurement platform is standardising procedures and reducing costs for the government. Six ministries use this to buy goods and services online. The contract to provide HR services for the Medical Research Council (MRC) in the UK was an important BPO-related win, whilst in Australia, LogicaCMG is supporting the implementation of shared services applications for the Queensland State Government.

Another major programme is the £3 billion Defence Information Infrastructure (DII) programme to the UK Ministry of Defence (MOD) – the biggest and most complex single infrastructure project, to date, being rolled out in Europe. LogicaCMG is part of a consortium delivering key components of this contract. Furthermore, the combination of LogicaCMG's and Unilog's capabilities has led to a €10 million win with the French Ministry of Defence. As prime contractor to the UK MOD we secured an £80 million contract to transform the UK MOD's medical services through the Defence Medical Information Capability Programme (DMICP).

Our unique position in the space market ensures we play leading roles in the majority of major software and security programmes. Skynet 5 is the UK's largest space software ground contract. Our role encompasses delivery of SAP-based business support systems, office systems, satellite communications service provisioning, network management and secure customer relationship management. We continue to expand into information services and location-based applications and are priming larger programmes.

We have also won key projects valued at approximately €50 million for work on the new Galileo satellite navigation system. We are defining the policy for end-to-end data security of the GMES programme (Global Monitoring for Environment and Security) and researching the technology required for a safe landing of ExoMars – Europe's next mission to Mars.

LogicaCMG is a trusted partner for governments and supranational agencies around the world. We are helping public sector organisations to achieve their strategic objectives and deliver improved services to citizens and businesses. Our strengthened consulting capability and outstanding track record of assured delivery over three decades remains a key differentiator in winning new business.

Financial review

Seamus Keating, Chief financial officer

Overall, the IT services market remained positive in 2006 with increasing volumes and a generally improving pricing environment.

Overview

Average market growth in IT services across our major geographies was in the range of 4–6%, with Financial services the strongest growing sector at approximately 6–8%. We continued to achieve price increases, particularly in areas of skills shortages and in the fastest-growing markets. Strengthened account management, domain knowledge and blended delivery with the increased use of our global delivery organisation and ongoing recruitment continue to be important in achieving growth.

The 2006 book-to-bill* ratio was 1.11:1 (excluding WM-data) compared to 1.27:1 in 2005, when we booked a €510 million order with Energias de Portugal (EDP). With the acquisition of Unilog, cross-selling into France and Germany has been an area of focus in 2006 and we have been awarded multi-year orders valued at more than €100 million (£67.6 million at £1/€1.48). We have also announced a number of significant wins in our other major geographies through the year. These include a €200 million (£135.1 million at £1/€1.48) contract with financial services provider ING, a £150 million applications outsourcing contract with the UK Department for Constitutional Affairs and an £80 million contract with the UK Ministry of Defence. We also won transformational outsourcing contracts with

£2,665.2m

Group revenue

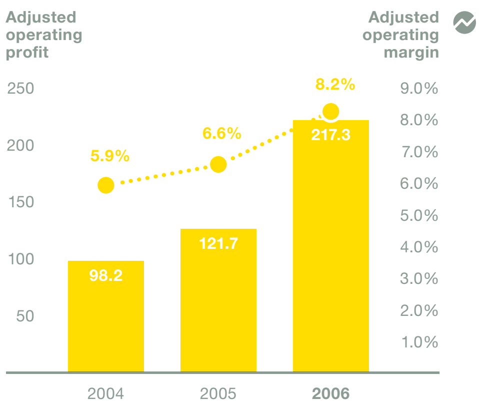
1.11:1

Book-to-bill*

*Book-to-bill represents orders booked in a period, divided by revenues in the period.

For Natixis case study, see page **15**;
For InBev case study, see page **19**;
For MOD case study, see page **23**.

Adjusted operating profit* was £217.3m, up 16.5% on a pro forma (i.e. like-for-like) basis.



*See page 128 for definition

InBev in Western and Eastern Europe and new contracts in the Dutch public sector. Contract renewals were signed with Volvo in Sweden and Welsh Water in the UK.

The strategic acquisitions of Unilog and WM-data contributed to a 45.3% increase in reported revenue in 2006. Revenue was £2,665.2 million (2005: £1,834.1 million). Weakness in the euro and dollar exchange rates, which accelerated through the second half of 2006, had an adverse effect on reported revenue when translated into pounds sterling. Reported revenue in Telecoms Products was down 4.0% on last year.

Our recently-announced divestment of the Telecoms Products business will allow us to focus on our core strengths in IT and business services. IT services revenue, which represented over 90% of 2006 group revenue, was up 5.0% on a pro forma basis. Our fastest-growing market for the second consecutive year was the Netherlands where we grew at approximately twice the market rate.

Regulatory requirements remained a key driver for growth in Financial Services in 2006. Cost reduction, along with new service introduction, was an important contributor to growth among Telecoms and Media, and Industry, Distribution and Transport (IDT) customers. Our exposure to IDT increased significantly with the addition of Unilog. IDT represented 27% of IT services revenue in 2006, up from 22% on a reported basis last year. Strong spending by government customers in the Netherlands and Germany drove growth in Public sector revenue at a group level.

Our top 10 customers accounted for 21% of group revenue (excluding WM-data) in 2006.

The percentage of revenue from outsourcing increased from 26% to 27% on a reported basis. We expect to see continued progress towards our target of 30-40% from outsourcing in 2007 as a result of the following:

- a general market trend to consolidate suppliers resulting in more complex deals being awarded to a smaller number of larger suppliers who have access to a more comprehensive service delivery capability coupled with specific process or functional knowledge;
- a shift in buying behaviour in two of our core geographies, France and the Netherlands, toward outsourcing-based contracts; and
- a long-established outsourcing business in the WM-data business in the Nordics which will contribute to revenue from outsourcing for a full year in 2007.

Adjusted operating profit was £217.3 million, up 16.5% on a pro forma basis from last year (2005: £186.6 million). This represents an adjusted operating margin for the year of 8.2%, up from 7.3% on a pro forma basis last year. IT services margins were maintained or increased in all our major geographies. Germany returned to profit in the second half of the year.

For the year ended 31 December 2006, the profit before tax was £129.4 million, compared with £104.8 million last year. Greater efficiencies in our tax structure and the lower tax rate in the Nordics (with results consolidated for a portion of the fourth quarter) further contributed to an improvement in net earnings compared to last year.

Basic earnings per share from continuing operations, which included higher net exceptional items and amortisation of acquisition-related intangibles than last year, were 6.7p (2005: 7.3p). Adjusted basic earnings per share were 10.7p (2005: 7.5p) on a weighted average share count of 1,215.6 million in 2006.

Higher net exceptional costs of £23.9 million (2005: £0.6 million) and amortisation

Revenue by market sector

	FY '06 £'m	FY '05 £'m Pro forma	FY '05 £'m Actual	% Growth FY '06 on FY '05 Pro forma	% Growth FY '06 on FY '05 Actual
Telecoms Products	244.5	255.9	254.7	(4.5)	
Telecoms Services	225.0	180.8	116.4	24.4	
Public Sector	619.3	594.5	471.3	4.2	
Industry, Distribution & Transport	663.9	660.8	343.2	0.5	
Energy & Utilities	427.5	452.8	352.9	(5.6)	
Financial Services	485.0	416.0	295.6	16.6	
Group	2,665.2	2,560.8	1,834.1	4.1	45.3

Note: Pro forma, constant currency comparisons are made between 2006 reported financial information and 2005 comparative financial information that has been adjusted by applying the exchange rates prevailing in 2006 and as if Unilog and Edinfor were consolidated from 1 January 2005, WM-data was consolidated from 13 October 2005, Worksuite was consolidated from 1 February 2005, and as if PDV.com was disposed of on 1 July 2005. This is intended to provide a more meaningful comparison to the prior year.

United Kingdom

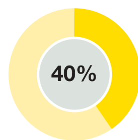
Revenue by market sector	FY '06 £'m	FY '05 £'m Pro forma	FY '05 £'m Actual	% Growth FY '06 on FY '05 Pro forma	% Growth FY '06 on FY '05 Actual
Public Sector	337.1	331.1	329.5	1.8	
Industry, Distribution & Transport	136.7	128.5	121.2	6.4	
Energy & Utilities	104.7	148.9	147.8	(29.7)	
Financial Services	85.7	66.4	64.2	29.1	
Telecommunications	54.2	50.3	49.3	7.8	
Total	718.4	725.2	712.0	(0.9)	0.9
Outsourcing %	40	37	38		
Adjusted operating margin %	10.8	11.1	11.3		

Note: See page 27 for an explanation of the basis of pro forma information.

UK

10.8%

Adjusted operating margin



Revenue from outsourcing

(0.9)%

Pro forma revenue growth

of acquisition-related intangibles of £37.6 million (2005: £1.0 million) were mainly related to the Unilog and WM-data acquisitions.

Within the net exceptional items, restructuring costs were partly offset by a credit of £9.0 million in relation to a harmonisation within our main UK pension scheme undertaken in 2006. Restructuring items included £24.9 million for the headcount and property rationalisation activities in France and Germany, as well as costs related to the Worksuite acquisition and property rationalisation in the US and £1.1 million related to the WM-data integration. Total restructuring and integration costs are expected to be £20.9 million in 2007.

Outlook

At exchange rates effective on 28 February 2007, underlying revenue for 2006 was £2,946.2 million. This includes a full year of WM-data results and excludes Telecoms Products for 2006.

As we enter 2007, the IT services market remains positive with increasing volumes and a generally improving pricing environment.

We expect overall growth of between 4% and 6% in the European IT services market in 2007, with our Netherlands, Nordic and French businesses likely to be at least in line with the growth rates in their respective markets. The UK remains the most competitive market but we expect to return to revenue growth on a reported basis in 2007.

In 2007, we will focus on continuing the successful integration of Unilog and WM-data into the group. We will have a full year of the Unilog cost savings, with WM-data cost savings of approximately £7.5 million, predominantly in the second half.

The divestment of the lower margin Telecoms Products division is expected to be earnings-neutral in 2007. The WM-data acquisition is expected to be earnings-enhancing.

We enter 2007 as a strong European company focused on IT and business services and with an extensive international network. We expect 2007 to be a year of sustained growth, in line with our expectations.

Employees

Employee numbers almost doubled in 2006, as Unilog and WM-data joined the group. At year end, we had 40,483 employees, compared to 29,469 on completion of the Unilog transaction in January 2006 and 21,340 at the end of 2005.

Despite exceeding our internal recruitment targets in the Netherlands and France, higher attrition across the industry resulted in capacity constraints in these markets. Annualised voluntary attrition for the group was approximately 16%, in line with the market.

We are using our "Releasing your Potential" brand initiative to raise our profile with internal and external employee audiences in a tighter recruitment market and are making use of new recruitment channels. Awareness-raising activities at major universities and initiatives such as work placement have been intensified to increase graduate recruitment in our major geographies. In France, we have recently launched a recruitment advertising campaign in French railway stations while, in the Netherlands, we have seen growing enrolment in a new work placement programme for undergraduates. In the second half of 2006, the number of referrals from existing employees has increased across the group. We have also deepened our relationships with specialist recruitment agencies which can source in-demand skills such as SAP on a permanent and flexible basis. At the end of 2006, we had over 3,000 SAP specialists.

Review of operations

IT services

United Kingdom

Underlying pro forma revenue growth (excluding the impact of £20 million of passthrough materials revenue in Energy and Utilities in 2005) was 1.9%. Adjusted operating margin in the UK for the year remained strong, as we continued to extend the use of our Global Service Delivery capability and to reduce the use of subcontractors in the second half.

The UK continued to be our most competitive market in 2006. We managed our cost structure to compete with offshore players by increasing our delivery from lower cost sites.

In a competitive market, we continued to win major projects, such as the £150 million contract with the Department for

Constitutional Affairs (DCA) and the £80 million contract with the Ministry of Defence (DMICP), which deliver cost benefits to the customer and provide a flexible platform for modernisation, building on specialised industry expertise and our track record of delivery.

Our order pipeline has strengthened going into 2007, with a healthy order backlog in the Public sector.

The Public sector continued to represent just under half of our revenue in 2006. Public sector revenue growth for the year was 1.8% on a pro forma basis, in line with overall market growth in this sector. The shift of expected revenue under a recently awarded contract into 2007 had an impact on revenue growth in the second half. However, contracts with the DCA, the ATLAS Consortium (DII), the Crown Prosecution Service (CPS), Ministry of Defence (DMICP) and the European Space Agency provide a strong underlying revenue stream into 2007, which we expect to lead to modest revenue growth in 2007.

Financial services grew 29.1% on a pro forma basis for the year, ahead of strong market growth. In addition to work in the payments area, we continued to deliver under a contract with Barclays as well as increased work in managed testing for a number of clients.

IDT revenue also increased, with pro forma revenue growth of 6.4% over last year as we delivered under existing contracts in the transport, automotive and housebuilding sectors. With the conclusion of an infrastructure-based support contract, IDT revenue is expected to be somewhat lower in 2007 than in 2006. Within IDT, businesses remain focused on cost reduction and we are working with customers to explore the wider use of our blended service delivery model. In the second half, we signed an extension of our outsourcing contract with Lotus Cars.

The decline in Energy and Utilities was largely due to the passthrough revenue recorded in 2005 and the phasing of new contracts in 2006. Our position as a key applications services provider alongside a new three-year framework agreement with a major Energy and Utilities customer positions us well for future growth.

France

On a pro forma basis, French revenue growth was 5.3%. The implementation of restructuring actions in the first half, improved utilisation in the former LogicaCMG business and lower passthrough revenue led to an improvement in full-year adjusted operating margin.

Capacity constraints contributed to lower 2006 revenue growth. They also resulted in a French order backlog at the beginning of 2007 significantly higher than last year.

Cross-selling synergies have increased through the year. Three major applications management wins were awarded in the second half. These contracts – with a major French retail customer, a major IDT customer and international gas company Air Liquide – will be partly delivered out of delivery centres in India or Morocco. We were also able to cross-sell our SAP Netweaver and HR outsourcing expertise into two large IDT clients.

In addition to capacity constraints, a lower level of passthrough revenue than last year in the former LogicaCMG business limited revenue growth during the second half, with capacity constraints contributing to generally lower revenue growth across all sectors.

Financial services grew by 12.4% on a pro forma basis in 2006. A significant contributor was our first major cross-selling win – a €23 million order with a major French financial services institution booked in the first half.

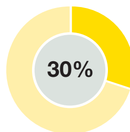
Our selection as a preferred supplier to a major utilities provider contributed to stronger growth in Energy and Utilities (up 21.6% on a pro forma basis). The three-year contract awarded in the second half for the maintenance of all of Air Liquide's European IT applications (excluding SAP) will also contribute to growth in this sector in 2007.

In Telecoms and Media, revenue was up 16.4% on a pro forma basis. Sales to a major global telecom operator were the main contributing factor.

France

8.7%

Adjusted operating margin



Revenue from outsourcing

5.3%

Pro forma revenue growth

France

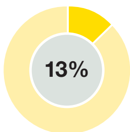
Revenue by market sector	FY '06 £'m	FY '05 £'m Pro forma	FY '05 £'m Actual	% Growth FY '06 on FY '05 Pro forma	% Growth FY '06 on FY '05 Actual
Public Sector	60.8	62.7	8.4	(3.0)	
Industry, Distribution & Transport					
Recurring	205.1	206.6	28.8	(0.7)	
Non-recurring	33.1	36.2	36.4	(8.6)	
Energy & Utilities	66.4	54.6	3.7	21.6	
Financial Services	145.0	129.0	30.3	12.4	
Telecommunications	49.6	42.6	9.1	16.4	
Total	560.0	531.7	116.7	5.3	379.9
Outsourcing % (of recurring revenue)	30	30	17		
Adjusted operating margin % (of recurring revenue)	8.7	7.1	(7.5)		

Note: See page 27 for an explanation of the basis of pro forma information.

Netherlands

9.9%

Adjusted operating margin



Revenue from outsourcing

10.0%

Pro forma revenue growth

Netherlands

Revenue by market sector	FY '06 £'m	FY '05 £'m Pro forma	FY '05 £'m Actual	% Growth FY '06 on FY '05 Pro forma	% Growth FY '06 on FY '05 Actual
Public Sector	121.9	110.9	111.7	9.9	
Industry, Distribution & Transport	103.0	98.1	98.7	5.0	
Energy & Utilities	49.4	45.7	46.0	8.1	
Financial Services	147.3	127.1	127.9	15.9	
Telecommunications	26.0	25.1	25.3	3.6	
Total	447.6	406.9	409.6	10.0	9.3
Outsourcing %	13	14	14		
Adjusted operating margin %	9.9	9.3	9.3		

Note: See page 27 for an explanation of the basis of pro forma information.

IDT revenue was 1.9% lower than last year on a pro forma basis due to lower sales to a major customer in the automotive sector compounded by the lower level of passthrough revenue mentioned above. In order to improve the quality of revenue being delivered in France, we have phased down the level of passthrough revenue in 2006. Passthrough revenue was approximately £33.1 million of revenue in 2006, compared to £36.2 million in 2005. Adjusted operating margin on the passthrough revenue was 2.7% in 2006. Excluding passthrough, French pro forma revenue growth in 2006 would have been 6.3%. We expect minimal passthrough revenue in 2007.

Public sector revenue slowed as delivery under two major contracts drew to a close. Overall, Public sector spending continues to show growth. We were awarded a number of new contracts in the defence area in 2006 under which we expect to deliver increased revenue in 2007.

The peak recruiting season in the fourth quarter allowed us to significantly increase capacity, with the net addition of over 300 employees. At the end of 2006, we had 8,563 employees in France, compared to an average of 8,368 in the second half. This positions us well to increase revenue growth in 2007, benefiting from continuing good demand in the French market.

Netherlands

Full-year revenue in the Netherlands grew by 10.0% on a pro forma basis, benefiting from general market strength in the Netherlands as well as our strong market position and focused account management. The ability to achieve price increases, improved utilisation and increased use of offshore resources all contributed to a substantial improvement in adjusted operating margin to 9.9%.

We saw revenue growth across all sectors with the split of market sectors remaining broadly unchanged. We won a number of larger deals, several of which included a component of blended services delivery. We are continuing to recruit in the Netherlands to meet strong market demand.

The Financial Services sector benefited from strongest growth as we continued to work with Financial Services customers such as ABN AMRO, Aegon, Delta Lloyd, ING and Rabobank. In the second half, we booked initial revenue under the six-year contract signed in November 2006 for application development, management and support as well as outsourced testing for ING retail banking. Approximately 300 ING employees transitioned to LogicaCMG at the beginning of 2007 and we began the deployment of infrastructure in support of this contract.

In the Public Sector, we increased our position within the social security area as the government sought to modernise service provision. We won new contracts with the Dutch unemployment office (UWV) and the Centre for Work and Income (CWI) for the application development and maintenance of new IT applications, with software to be delivered and maintained in our Dutch development factory. Increased Public Sector spending and increased revenue under our e-procurement contract for several Dutch ministries led to growth of 9.9% on a pro forma basis in this sector in 2006.

In Energy and Utilities, we were selected as one of four key applications services providers to Shell. Delivery under our

> **"We expect overall growth of between 4% and 6% in the European IT services market in 2007."**

recently-renewed four-year contract for infrastructure and applications management with energieclearingHouse was also a major contributor to increased revenue.

In IDT, we grew in line with the market at 5.0% on a pro forma basis. Capacity constraints, particularly in ERP, limited revenue growth in the second half. In a generally improved economy, customers are focused on globalisation of operations. Cost reduction, partly through outsourcing, also remains a key driver. A good example of our ability to take on strategic outsourcing with key customers is a five-year partnership in software products with Philips Applied Technologies. Under this agreement, over 30 highly-skilled employees with industry-specific knowledge have been transferred to LogicaCMG to provide maintenance, support and development of new releases of Philips software.

Nordics

We reported revenue of £190.5 million in the Nordics in 2006. This represents approximately two and a half months of revenue from WM-data as well as £4.5 million from the existing LogicaCMG business in Sweden. Adjusted operating profit on a reported basis for the Nordics was £16.9 million, representing an adjusted operating margin of 8.9%.

Full-year results for WM-data were in line with expectations, with full-year revenue of SEK 10,567 million (£778.7 million) and an adjusted operating profit (including the share of profit from associates of SEK 22 million) of SEK 997 million (£73.5 million). Adjusted operating margins were stable or improved in all countries.

We are seeing good early prospects in cross-selling solutions to Nordic customers, which we expect to convert to orders in 2007. We have seen particularly strong interest in our blended Global Service Delivery capability among Nordic accounts.

WM-data 2006 revenue grew 14% when compared with 2005, representing a full year of revenue from the acquisition of Atos Origin's Nordic operation (acquired in July 2005). On a year-on-year basis, organic revenue growth was 4%.

Swedish revenue grew by 22%. Excluding the effect of acquisitions, this represented organic growth of 5%. The cost savings achieved through the integration of the Atos Origin Nordics business resulted in adjusted operating margin improving from 6.2% to 8.6%.

In Finland, organic growth was 3% with adjusted margins at 11.7%. The focus for 2007 is on taking advantage of our market position to achieve a higher level of organic revenue growth while maintaining double-digit margins.

The Norwegian business strengthened its position in the Utilities sector, with the integration of new skills and customer relationships from the former Atos Origin. This improved position, as well as improved efficiency in the former WM-data business, led to an improvement in adjusted operating margin in Norway.

The Danish operation continued to grow and improve its margins with a strong market position within the growing healthcare sector being an important contributor. In addition, the acquisition of ASA Mentor A/S in 2006 strengthened WM-data's position in SAP.

Revenue at Caran, which provides industrial design solutions for automotive, aerospace and manufacturing clients, was lower than last year due to a reduction in R&D investment in the automotive industry, which was partly offset by growth with manufacturing customers.

Germany

We achieved revenue growth of 5.7% in Germany on a pro forma basis. We were helped by an improving market in Germany and finished the year with a healthy order book. Adjusted operating margin was 4.6% in the second half, in line with our guidance for a return to profit, as the restructuring programme benefits came through.

Our managed testing project for a major operator contributed to a revenue increase of 78.3% in Telecoms and Media on a pro forma basis. The Public Sector also grew by 40.7% on a pro forma basis, as we began to deliver revenue under our contract for delivery of an emissions trading registry with the UNFCCC. These increases as well as an increase in Energy and Utilities (up 40.7% on a pro forma basis) offset a decrease in other sectors.

The training business, which delivers a significant portion of its revenue in the second half, contributed to higher second half revenue.

Following the completion of a major restructuring programme in 2006, we

Nordics

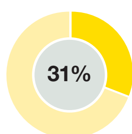
Revenue by market sector	FY '06 £'m	FY '05 £'m Pro forma	FY '05 £'m Actual	% Growth FY '06 on FY '05 Pro forma	% Growth FY '06 on FY '05 Actual
Public Sector	55.8	56.2	-	(0.7)	
Industry, Distribution & Transport	81.9	81.0	0.2	1.1	
Energy & Utilities	13.0	10.2	-	27.5	
Financial Services	20.2	10.1	1.8	100.0	
Telecommunications	19.6	21.3	3.5	(8.0)	
Total	190.5	178.8	5.5	6.5	3,363.6
Outsourcing %	31	-	15		
Adjusted operating margin %	8.9	8.1	(25.5)		

Note: See page 27 for an explanation of the basis of pro forma information.

Nordics

8.9%

Adjusted operating margin



Revenue from outsourcing

6.5%

Pro forma revenue growth

finished the year with headcount of 2,059. With the restructuring complete and a stronger organisation in place, the focus in 2007 will be on increasing recruitment to drive revenue growth.

Overall, we finished the year with an adjusted operating loss of £1.4 million in Germany. With a full year of cost savings of Germany in 2007, we expect this business to be able to sustain low-to-mid single digit margins in the future.

International

In line with changes to the way we manage the business, we are now reporting revenue from the rest of Europe within the "International" segment.

Revenue growth in 2006 was up 10.8% on last year on a pro forma basis. Adjusted operating margin was 5.7%, up 2.5% on a pro forma basis compared to last year, reflecting stronger margins in Asia and the rest of Europe.

In this group of businesses, Iberia continues to be the largest, representing just over a third of International revenue in 2006. Our contract with EDP continues to represent our largest revenue stream in the region but we grew our Telecoms and Media revenue in 2006 with a significant BPO win at ONI Telecom. While our headcount has remained broadly stable at around 1,500, we have reduced the number of subcontractors. This, along with improved utilisation and renegotiation of supplier contracts, contributed to improved margins.

Significant highlights in our Belgian business in 2006 were the improved profitability and the award of contracts for applications outsourcing for InBev's operations in Western and Eastern Europe, which will be managed from our Belgian operations and delivered across 17 countries.

In the Middle East, major revenue drivers continue to be Financial Services and Public Sector. We were awarded a major transformation project with the National Bank of Kuwait in 2006 which was a significant contributor to revenue growth in the region.

Our contract with telecoms operator Natrindo led to very strong revenue growth in Asia in 2006. Margins improved through the year with the shift from more product-based to more services-based delivery. Overall, the Asian market became more competitive during the year as offshore players increased their presence in the region and recruitment became more challenging. We continue to see opportunities for Telecoms and Media and Financial services through the region which will offset a significant reduction in revenue from Natrindo, in line with the expected phasing of the contract.

Our Australian business continued to perform well on both revenue and operating margin levels, with the employee base increasingly focused on high value-added work. Solid growth was evident in the Energy and Utilities sector (up 10% on a pro forma basis) and IDT (up 6.1% on a pro forma basis). We expect deregulation and a growing resources industry to continue to drive spending in Energy and Utilities. Slower Public sector revenue growth ahead of a likely election will be offset by growth in IDT in 2007 as we begin delivering against recently awarded contracts.

Accounting and other matters

Due to the short time period between the date of acquisition of Unilog and the date of approval of the 2005 consolidated financial statements, no amortisation charge for certain intangible assets was recognised within the share of post-tax profits from associates in 2005. As a consequence, the 2005 comparatives have been restated to show a reduction of £0.8 million (net of tax) in the share of post-tax profits from associates.

In addition, following the acquisition of Edinfor in 2005, the prior year comparatives have been restated to reflect the actual fair values on acquisition. This resulted in a decrease in the share of net assets acquired of £2.0 million.

During the year, we re-organised the management of our business to combine

Germany

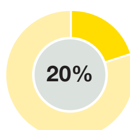
Revenue by market sector	FY '06 £'m	FY '05 £'m Pro forma	FY '05 £'m Actual	% Growth FY '06 on FY '05 Pro forma	% Growth FY '06 on FY '05 Actual
Public Sector	12.1	8.6	0.4	40.7	
Industry, Distribution & Transport	67.5	79.6	33.6	(15.2)	
Energy & Utilities	24.9	17.7	11.7	40.7	
Financial Services	39.5	39.8	29.4	(0.8)	
Telecommunications	24.6	13.8	3.7	78.3	
Total	168.6	159.5	78.8	5.7	114.0
Outsourcing %	20	17	35		
Adjusted operating margin %	(0.8)	(4.0)	(15.0)		

Note: See page 27 for an explanation of the basis of pro forma information.

Germany

(0.8)%

Adjusted operating margin



Revenue from outsourcing

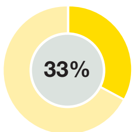
5.7%

Pro forma revenue growth

International

5.7%

Adjusted operating margin



Revenue from outsourcing

10.8%

Pro forma revenue growth

International

Revenue by market sector	FY '06 £'m	FY '05 £'m Pro forma	FY '05 £'m Actual	% Growth FY '06 on FY '05 Pro forma	% Growth FY '06 on FY '05 Actual
Public Sector	31.6	25.0	21.3	26.4	
Industry, Distribution & Transport	36.6	30.8	24.3	18.8	
Energy & Utilities	169.1	175.7	143.7	(3.8)	
Financial Services	47.3	43.6	42.0	8.5	
Telecommunications	51.0	27.7	25.5	84.1	
Total	335.6	302.8	256.8	10.8	30.7
Outsourcing %	33	40	39		
Adjusted operating margin %	5.7	3.2	3.0		

Note: See page 27 for an explanation of the basis of pro forma information.

the Rest of Europe business and Rest of World business. As such, we will be reporting these as one operation called International. Following the acquisition of WM-data, the LogicaCMG Nordics operations (previously reported as part of the Rest of Europe business) is now included in the Nordics business.

On 20 February 2007, the group announced the disposal of the Telecoms Products business. The group will report the results of Telecoms products as a discontinued operation in 2007.

Under the terms of the WM-data acquisition, lock-up arrangements were agreed with Investor AB and Thord Wilkne. Investor AB received 66,752,225 LogicaCMG shares, and Thord Wilkne received 25,650,000 LogicaCMG shares as part of the WM-data acquisition. Each of Investor AB and Thord Wilkne entered into agreements with LogicaCMG restricting their ability to dispose of these shares for a certain period following completion. Investor AB undertook not to dispose of 62.5% of its total holding of 66,752,225 LogicaCMG shares for a period of 12 months from completion of the acquisition. Thord Wilkne undertook not to dispose of 62.5% of his total holding of 25,650,000 LogicaCMG Shares for a period of 12 months from completion.

As part of the Unilog acquisition, a number of Unilog management shareholders, including Gérard Philippot and Didier Herrmann, entered into a lock-up agreement with respect to the shares they received as part of the transaction. Gérard Philippot received 8,611,532 shares and agreed that he would not dispose of any of his shares until 3 March 2007. Didier Herrmann received 7,376,495 shares and agreed that these would be locked up for a period of one year after completion of the tender offer (which occurred on 10 January 2006). At the end of this period, he would be entitled to sell up to one third of the shares, with the remaining two thirds of the shares to remain locked up until the expiry of two years after completion of the tender offer.

Cash flow and debt

Cash generated from operations was £216.8 million. The net cash inflow from trading operations was £250.4 million, giving a cash conversion of 115% (2005: 149%).

Group net debt at 31 December 2006 was £557.1 million, compared to £96.1 million at 31 December 2005. The increase in net debt during 2006 reflects the completion of the Unilog transaction as well as a drawdown on the debt facility used to finance the WM-data acquisition.

Dividend

The directors have proposed a final dividend of 3.4 pence per share to be paid on 25 May to shareholders on the register at the close of business on 27 April 2007. Following the restatement of the 2005 interim dividend to reflect the bonus element of the rights issue, this year's total dividend of 5.6 pence per share represents a 5.5% increase on last year.

Seamus Keating
Chief financial officer

115%

Group cash conversion

LogicaCMG plc Board

Martin Read (57)*
Group chief executive
Executive director

Martin joined Logica plc in 1993 as chief executive and became Group Chief Executive of LogicaCMG following the merger of Logica and CMG in December 2002. Prior to 1993, he was supervisory managing director of the GEC-Marconi Radar and Control Systems group of companies. Martin has been a non-executive director of British Airways plc since 2000. He was a non-executive director of ASDA Group plc from 1996 to 1999 and of Boots Group plc from 1999 to July 2006.

Jim McKenna (52)*
Chief operating officer
Executive director

Jim was appointed chief operating officer in January 2005. He has been a member of the LogicaCMG Board since December 2002, having been an executive director of Logica plc since 1998. Jim was also chief executive for LogicaCMG in the UK and Ireland and was previously responsible for Logica in continental Europe and the Middle East. He formerly worked for GEC-Marconi and also Plessey Company plc. He is a non-executive director of AWG plc.

Seamus Keating (43)*
Chief financial officer
Executive director

Seamus was appointed chief financial officer and a member of the LogicaCMG Board in December 2002, having been Logica chief financial officer since February that year and director of group finance since 1999. He joined Logica from Getronics, where he was finance director of Olivetti Solutions, immediately prior to its purchase by Wang (in turn purchased by Getronics). Prior to that appointment, he was finance director of Olivetti's UK operations, having joined its finance function in 1989.

Didier Herrmann (57)*
Executive vice president, France, Germany and Switzerland
Executive director

On 10 January 2006, Didier was appointed executive vice president of the LogicaCMG group and executive director of the Board, responsible for France, Germany and Switzerland. Didier has been a member of the Unilog board since 1992. He became head of international business in 2004 and vice-president of Unilog in June 2005. On 1 March 2006, Didier became president of the Unilog S.A. executive board.

Crister Stjernfelt (63)*
Executive vice president, Nordic region
Executive director

On 10 October 2006, Crister was appointed an executive Board director of LogicaCMG with responsibility for the Nordic region. Crister joined WM-data in 1977 as managing director for the Danish operations. He continued working at WM-data in Sweden as sales director for application software becoming managing director for the application software operations between 1984 and 1990. In 1990 he became a member of the executive board of WM-data and in 1995 senior vice president in charge of marketing and information. In April 2001, Crister was appointed president and CEO of WM-data.

Cor Stutterheim (60)
Non-executive chairman and chairman of the Nomination Committee

Cor was appointed non-executive chairman of LogicaCMG in December 2002. He was previously chairman of CMG for seven years. Cor joined CMG in the Netherlands in 1970 as a systems and programming consultant and held various management positions before being appointed to the Board in 1977. He became deputy chairman in January 1995 and was appointed chairman in August 1995. Cor retired from his non-executive director position at Polar Capital Partners Ltd on 1 January 2006. He remains a member of the board of directors of Koninklijke Wegener NV and a member of the advisory board of GIMV-ICT.

Helmut Mamsch (62)
Deputy chairman and senior independent non-executive director

Helmut became a non-executive director of LogicaCMG in December 2002, having been a non-executive director of Logica since 1997. He is the senior independent non-executive director and deputy chairman. He is also a non-executive director of GKN plc and SAPPI Limited, and is a member of the supervisory board of K+S Aktiengesellschaft. In September 2006 he joined the Board of Electrocomponents plc as a non-executive director and took up the chairmanship of that company in October 2006.

Wim Dik (68)

Wim was appointed a non-executive director of LogicaCMG in December 2002, having been a non-executive director of

CMG since May 2001. He is a professor at the Technical University Delft in the Technology and Management Faculty. Previously he was 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 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 Limited. Wim is a Grand Officer in the Dutch order of Oranje Nassau and a Commander in the Swedish order of the North Star.

Angela Knight CBE (56)
Chairman, Remuneration Committee
Angela became a non-executive director of LogicaCMG in December 2002, having been a non-executive director of Logica since July 1999. She is currently chief executive designate of the British Bankers' Association and will formally take up the role of chief executive officer on 1 April 2007. She is also a non-executive director of International Financial Services London (IFSL) and a trust member 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 chair of Scottish Widows and a non-executive director of Lloyds TSB plc until October 2006. Angela was previously the Member of Parliament for Erewash (1992–97) and Economic Secretary to HM Treasury between 1995 and 1997.

George Loudon (64)
George was appointed a non-executive director of LogicaCMG in December 2002, having previously been a non-executive director of CMG since 1998. He is currently Chairman of Altius Associates Ltd and Pall Mall Capital Ltd, as well as holding a number of non-executive positions. Until 2005, George was chairman of Helix Associates Ltd. He has held many board positions with both UK and European companies and trusts and was previously a director of Midland Bank plc and Chairman & Chief Executive of Midland Montagu.

Roger Payne (58)
Chairman, Audit Committee
Roger, a chartered certified accountant (FCCA), became a non-executive director of LogicaCMG in September 2004 and was appointed chairman of the Audit Committee at the same time. In September 2005, he retired from his position as finance director of Rentokil Initial PLC, then a 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.

Gérard Philippot (65)
Gérard was appointed a non-executive director of LogicaCMG in October 2005. He was president of Unilog from 1992 and was the driving force behind Unilog rising from the twenty-third to the fourth largest French IT service company between 1992 and 2005. Graduating from Ecole Polytechnique in 1962, Gérard began his career as an engineer with the organisation 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.

Noël Harwerth (59)
Noël was appointed a non-executive director of LogicaCMG in January 2007. Noël currently serves as a non-executive director with Sumitomo Mitsui Banking Corporate Europe, Royal & Sun Alliance Insurance Company, and Corporate Services Group. She is also currently a non-executive director of the Corus Group. From 1998 to 2003, Noël was chief operating officer of Citibank International Plc in London and was responsible for infrastructure and governance in Europe.

Wolfhart Hauser (57)
Wolfhart was appointed a non-executive director of LogicaCMG in January 2007. Wolfhart is currently chief executive officer of Intertek Group plc, having been appointed to their Board as a non-executive director in 2002. Intertek is a global leader in testing, inspection and certification of products, commodities and systems, operating in 110 countries. Wolfhart started his career as a scientist and medical doctor before establishing and leading a broad range of successful international service businesses in the testing industry. For 10 years he was chief executive officer of TÜV Product Service GmbH and for four years chief executive officer of TÜV Süd AG, the largest testing, inspection and certification company in Germany.

*Member of the LogicaCMG Executive Committee

For information on other Executive Committee members see pages **36 to 37**

Other members of the Executive Committee

Nick Caplan (47)
Chief marketing officer
Nick was appointed a member of the Executive Committee of LogicaCMG in January 2005. He joined LogicaCMG in May 2003 as managing director for international financial services. His previous experience has included interim chief executive of two software houses. Prior to this, Nick was head of CSC's European financial services consultancy, systems integration and outsourcing and prior to that operations director of JIB, an organisation providing insurance and risk advisory services to businesses around the world.

Joe Hemming (44)
Chief executive, UK
Joe was appointed chief executive of LogicaCMG UK and a member of the Executive Committee in January 2007, having been managing director of LogicaCMG's space and defence business since January 2004. Joe gained his early experience in the defence industry at Thorn EMI Electronics before joining Easams, the IT business of the GEC-Marconi group in 1984. Joe moved to Logica plc 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. Following the merger of Logica and CMG in December 2002, Joe continued in the role as commercial director of the new LogicaCMG UK organisation until January 2004.

Paul Schuyt (49)
Chief executive, The Netherlands
Paul was appointed chief executive, The Netherlands, in February 2003 and a member of the Executive Committee of LogicaCMG 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 sectors prior to being appointed country director of CMG Benelux in 2002.

John Coleman (59)
Chief executive, International
John was appointed chief executive, International, and a member of the Executive Committee of LogicaCMG 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 International Line of Business (ILoB) director for telecoms from 2000 to 2002.

Nigel Perks (48)
Group HR director
Nigel was appointed group HR director and a member of the Executive Committee of LogicaCMG 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).

Thomas Ivarson (52)
Sales, marketing and ILoB director, Nordics
Thomas was appointed executive vice president wireless networks (now Telecoms Products) and a member of the Executive Committee of LogicaCMG following the merger of Logica and CMG in December 2002. In October 2003 he became group sales and marketing director and in 2007 he became ILoB and sales and marketing director for the Nordic region. Thomas joined CMG in October 2001 as chief executive of CMG wireless data solutions. Between 1995 and 2001 he was CEO and president of the EHPT Group. Previously he worked for 15 years with Ericsson. Thomas was a non-executive director of Intec Telecom Systems plc from 2003 to 2005.

Aydin Azernour (51)
Chief executive, IT services, France
Aydin was appointed a member of the Executive Committee of LogicaCMG and chief executive of IT services – France, in January 2006. He joined Unilog in 1985 and, in 1998, was appointed a member of the Unilog Executive Committee in charge of engineering activities in the industry sector. Appointed a member of the Unilog management Board in 2000, Aydin established and developed the Unilog Start-up Valley, an organisation intended to host and develop innovative projects.

Patrick Guimbal (51)
Chief executive, Management Consulting, France, Germany and Switzerland
Patrick was appointed an Executive Committee member and chief executive, Management Consulting – France, Germany and Switzerland in January 2006. He is in charge of Unilog Management, the subsidiary of Unilog for consulting activities in France and Germany. 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.

Chris McDermott (50)
Chief executive, Telecoms Products
Chris was appointed chief executive, wireless networks (now Telecoms Products) and an Executive Committee member of LogicaCMG in December 2002. Chris joined Logica in May 2001 as supervisory managing director responsible for Logica's business across Asia Pacific and was later appointed supervisory managing director for Logica's mobile networks division. Prior to that, he was vice president and general manager of the worldwide public sector business at Unisys, having previously run their worldwide commercial and European telecoms business. Before Unisys, Chris worked for Nortel and GEC Avionics.

For information on Board members
see pages **34 to 35**

Chairman's statement

Cor Stutterheim, Chairman

In 2004, the Board set out a strategy which has since resulted in a significant transformation of LogicaCMG, extending its capabilities and scale in Europe and allowing it to focus on its core strengths in IT and business services.

Delivering on our strategy

The Board recognised several years ago that the IT services market was consolidating. We played an active role in this process through the combination of Logica and CMG in 2002 which provided a strong platform for future development. The subsequent acquisitions of Unilog and WM-data were carefully targeted on the basis of strict criteria. Particularly important was targeting high-quality businesses with good margins and a strong cultural fit, facilitating the successful integration of these businesses while maintaining LogicaCMG's strong operating performance.

The Unilog transaction was completed on 13 January 2006. Following shareholder approval, we finalised the WM-data acquisition in October 2006. We issued 386.9 million new shares and paid SEK 2.35 billion (£170.8 million) to finance the acquisition. We expect to take control of the remaining WM-data minority interests by mid-2008.

The divestment of the Telecoms Products business, announced in early 2007, enables us to concentrate on our core strengths. LogicaCMG today is a substantial European company with an extensive international network, focused on IT and business services.

Building a strong Board

As the company is evolving, the Board is also changing. Following the completion of the Unilog acquisition in January 2006, Didier Herrmann joined the Board. Crister Stjernfelt joined the Board and Executive Committee following the WM-data acquisition. Noël Harweth and Wolfhart Hauser, whose appointments as non-executive directors were announced in January 2007, bring valuable commercial and international experience. With the expected retirement of Helmut Mamsch following the 2007 AGM, we plan to appoint Wim Dik as deputy chairman and senior independent non-executive director.

We are committed to sound corporate governance and have continued to formalise our procedures to reflect the fact that we are now a major European company. The annual performance review provided an opportunity to enhance the operations of the Board. We have increased the number of Board events and strengthened the focus on Board succession planning through the Nomination Committee.

Incentivising employees

As a knowledge-based organisation operating in a competitive market, it is essential that we retain and motivate high-calibre staff. We regularly review our remuneration and professional

5.6p

2006 dividend

+5.5%

Dividend increase

development policies to ensure that we continue to attract and retain the right employees.

Like LogicaCMG, Unilog and WM-data attached high importance to developing their people. We are now bringing these learning cultures together by creating an internationally recognised "corporate university". A mini-MBA programme is also being introduced to support leadership development.

The Group promotes a performance-oriented culture by aligning financial incentives to long-term business success. At the last AGM, shareholders approved a new Long Term Incentive Plan (LTIP), which provides for an annual bonus, based on a combination of the Group's and individual performance. Executive directors must meet challenging earnings per share (EPS) and total shareholder return (TSR) targets. They are also required to invest at least 20% of their bonus in LogicaCMG shares.

In 2006, adjusted EPS grew by 42.7% to 10.7 pence per share. LogicaCMG's total shareholder return was 8.3% in 2006, while the weighted total shareholder return of our TSR comparator group was 4.4%.

Communicating with stakeholders

We are mindful of the interests of all our stakeholders, including our own employees. Acting as a good corporate citizen in all our markets is in our long-term interest. We are recognised for our efforts by our inclusion in the FTSE4Good Index.

We aim to stay in contact with shareholders to ensure that they understand the strategy we are pursuing for the business. Our new annual report format is designed to improve the quality of information we provide and includes the Key Performance Indicators (KPIs) that we consider in assessing the business.

The geographic distribution of our shareholders altered with the addition of former WM-data shareholders in late October. In response to the needs of Nordic shareholders, LogicaCMG shares are now traded on the Swedish Stock Exchange.

Delivering returns to shareholders

Our dividend policy aims to ensure that shareholders benefit directly and consistently from the successful growth of the business, while continuing to provide sufficient funds to invest in future growth. We have increased our dividend every year since 2003 (when adjusted to reflect the bonus element of the rights issue undertaken in November 2005). The dividend increased by 5.5% in 2006, bringing the total for the year to 5.6 pence per share.

This has been an important period in the Group's strategic development. At the same time, the business delivered strong growth in adjusted earnings per share and operating cash flow. We are successfully integrating our acquisitions and expect to complete the divestment of Telecoms Products and the related share buyback in 2007. Our increased scale and strengthened employee base, led by a talented management team, give us confidence that 2007 will be a year of sustained growth in which we will continue to deliver returns to our shareholders.

Cor Stutterheim
Chairman

For more information, visit
www.logicacmg.com/investors

Report of the directors

Contents

The directors present their report together with the financial statements of the company and its subsidiaries, for the year ended 31 December 2006. These will be laid before shareholders at the annual general meeting (AGM) to be held on 24 May 2007.

1. 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
- 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.

1.1 Results and dividends

Consolidated revenue amounted to £2,665.2 million, compared with £1,834.1 million for the year ended 31 December 2005. The profit before tax was £129.4 million compared to £104.8 million (restated) for the year ended 31 December 2005. The profit attributable to equity holders of the parent company was £82.0 million, compared with £65.8 million (restated) for the previous year. Adjusted basic earnings per share from continuing operations were 10.7 pence (2005: 7.5 pence). Net debt at 31 December 2006 stood at £557.1 million (2005: £96.1 million).

The directors have proposed a final dividend of 3.4 pence per share (2005: 3.2 pence per share) which, when taken with the interim dividend of 2.2 pence per share (2005: 2.11 pence per share) paid to shareholders on 20 October 2006, will amount to a dividend for the year of 5.6 pence. If approved, the final dividend will be paid on 25 May 2007 to eligible shareholders on the register at close of business on 27 April 2007.

Dividend waiver details are set out in note 32 on page 94.

1.2 Business review

The information that fulfils the requirements of the Business Review can be found in various parts of the annual report and accounts, which are incorporated in the Report of the Directors by reference.

Strategic objectives for the business are described on pages 2 to 9. A review of the development, performance and position of the business as well as an analysis of KPIs is given on pages 2 to 33. A glossary of key performance indicators (KPIs), including definitions and rationale for selection, are on page 128. Risk factors are on page 54.

KPIs are identified by the symbol throughout this report.

Further information on the acquisition of interests in subsidiaries and associates during the year is provided below.

On 18 January 2006 the group announced that completion of the acquisition of Unilog S.A. had taken place on 13 January 2006 and that it now held a 96.6% controlling interest in Unilog S.A. On 10 July 2006 a further announcement was made that all of the remaining share capital of Unilog S.A. would be compulsorily acquired and Unilog S.A. would be removed from the Euronext Paris List. Following successful completion of the compulsory acquisition procedure, the group now owns 100% of Unilog S.A. and shares in Unilog S.A. have been delisted.

On 21 August 2006 the group announced a recommended cash and share offer for the proposed acquisition of WM-data AB, a leading Nordic IT group. These proposals were approved by shareholders at an extraordinary general meeting (EGM) of the company held on 2 October 2006.

Following the offer for WM-data AB, the group received acceptances in respect of a total of 400,618,093 WM-data shares and SEK199.5 million nominal value of WM-data convertible debentures, representing approximately 95.33% of the total capital of that company and approximately 97.16% of the voting rights attaching to such capital. A compulsory acquisition procedure under the Swedish Companies Act 2006 to acquire all the remaining WM-data shares was initiated prior to the year-end.

On 13 October 2006 a total of 345,821,170 new shares in LogicaCMG plc were allotted to shareholders and convertible debenture holders of WM-data AB who had accepted the company's offer as part of the consideration for the acquisition of WM-data AB and on 24 October 2006 a further 41,043,271 shares were allotted to WM-data AB shareholders and convertible debenture holders in respect of the same matter. The group also paid a total cash consideration of SEK2.35 billion (£170.8 million) in relation to the offer in 2006.

Additional information about the acquisition of WM-data AB is set out on pages 97 and 98.

On 20 February 2007 the group announced that it had entered into an agreement to sell, subject to the necessary employee consultation and regulatory approval, its Telecoms Products business to an investment consortium led by Atlantic Bridge Ventures, for £265 million (€392 million). It was also announced that the proceeds of the sale would be used to reduce the group's debt, to buyout some existing minority interests and to return funds to shareholders through a share buyback programme.

1.3 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 2006, the number of days of annual purchases represented by year-end trade creditors for the group amounted to 53 days (2005: 43 days).

1.4 Research and development

During the year the group invested £40.2 million (2005: £31.1 million) in research and development on software products, principally within the Telecoms Products business, of which £11.3 million (2005: £5.6 million) was capitalised.

2. Financial instruments

The exposure of the group to financial risks and the risk management objectives and policies relating to those risks are set out on pages 91 and 92.

3. Directors

The directors are listed on pages 34 and 35.

On 10 January 2006 Didier Herrmann, the Executive Vice President of Unilog S.A. was appointed as an executive director of the company. On 10 October 2006 Crister Stjernfelt, the President and Chief Executive Officer of WM-data AB, was appointed as an executive director of the company.

On 21 November 2006 the company announced that, with effect from 1 January 2007, Noël Harwerth and Wolfhart Hauser would be appointed as non-executive directors of the company. In addition, it was announced that, with effect from the completion of the company's 2007 AGM, Helmut Mamsch, having completed nine years service, would retire from his directorship and as the deputy chairman and senior independent non-executive director of the company. Wim Dik, who was appointed as a non-executive director in 2002, will replace him in those roles.

The interests of the directors in the shares of the company are shown in the Remuneration Committee report.

As disclosed in the documents sent to shareholders in relation to the respective acquisitions of Unilog S.A. and WM-data AB, Gérard Philippot and Didier Herrmann, both of whom were shareholders in Unilog S.A., and Crister Stjernfelt, who was a shareholder in WM-data AB, all received consideration, including shares, for the acquisition of their interests in those companies by the group.

Other than as referred to above, none of the directors had a material interest in any contract of significance to which the parent company or a subsidiary was a party during the financial year.

At the 2007 AGM, Seamus Keating, Martin Read and Cor Stutterheim will retire and offer themselves for re-election, in accordance with the Articles of Association. In addition, Crister Stjernfelt, Noël Harwerth and Wolfhart Hauser, all of whom have been appointed as directors since the last AGM, will offer themselves for election. As referred to above, Helmut Mamsch will retire as a director at the completion of the meeting.

3.1 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.

4. Substantial shareholdings

At 29 March 2007 the company had been notified that the following were interested in 3% or more of the company's share capital:

Name	Number of shares	%
Fidelity International Ltd	85,945,680	5.6
UBS Global Asset Management	77,642,145	5.1
The Capital Group Companies Inc. (and its affiliates)	80,880,658	5.3
Legal & General Group plc (and its subsidiaries)	53,816,866	3.5

5. 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. Further details on our employment policies are included in the corporate social responsibility statement on pages 43 to 46.

6. Remuneration Committee report

The Remuneration Committee report is set out on pages 55 to 65.

7. Auditors

After due and careful consideration, the directors have recommended the reappointment of PricewaterhouseCoopers LLP as the company's auditors.

Report of the directors (continued)

PricewaterhouseCoopers LLP has expressed its willingness to continue in office and therefore a resolution for their reappointment will be proposed at the forthcoming AGM.

8. Auditors' right to information
Each of the directors at the date of approval of this report confirms that:

a) so far as he or she is aware, there is no relevant audit information of which the company's auditors are unaware
b) he or she 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.

9. Annual general meeting
The company's AGM will be held on 24 May 2007 at 3.00pm at the London Underwriting Centre, 3 Minster Court, Mincing Lane, London EC3R 7DD, United Kingdom.

9.1 Repurchase of company shares
Resolution number 11 in the Notice of the forthcoming AGM proposes granting the directors the unconditional and general authority to make one or more market purchases of the company's ordinary shares for the purposes of Section 166 of the Companies Act 1985, on such terms and in such manner as the directors shall determine, subject to maximum and minimum prices which may be paid for each ordinary share as set out in the resolution. In addition:

- the maximum aggregate number of shares that may be purchased pursuant to this authority shall be limited to 153,701,812 shares, which is equivalent to 10% of the company's issued share capital as at 29 March 2007
- this authority shall remain in force until the conclusion of the next AGM of the company but will terminate on the date falling 12 months from the date that this resolution is passed if the AGM has not been held by that date
- the company may agree before the above authority terminates to purchase ordinary shares where the purchase will or may be executed after the authority terminates (either in whole or in part)
- the company may complete such a purchase even though the authority has ended.

On 20 February 2007, when the company announced the sale of its Telecoms Products business it also announced that it expected to return approximately £130 million of the net proceeds of the sale to shareholders via a share buyback programme in 2007. It is the company's present intention to use the authority in this resolution in part to purchase shares in the market in respect of that programme.

Other than as referred to above, the Board has no specific plans to use this authority. However, the authority may be used to make a purchase of the company's ordinary shares if suitable market conditions arise but will only be exercised if the Board considers that the purchase is in the best interests of shareholders generally and would result in an increase in earnings per share.

It is the company's present intention to cancel any shares that are purchased.

The authority approved at the 2006 AGM remained valid at the year-end. No purchases or commitments to purchase were made under that authority during 2006.

9.2 Authority to allot securities
Resolution number 12 in the Notice of the forthcoming AGM proposes the renewal of the directors' authority to allot the authorised but as yet unissued share capital of the company in accordance with Section 80 of the Companies Act 1985. This authority, which is renewed at each AGM of the company and was also renewed at the extraordinary general meeting (EGM) held on 2 October 2006, expires at this year's AGM. The maximum number of shares subject to such an authority would be 507,215,979 representing approximately 33% of the company's total issued share capital at 29 March 2007. The directors do not have any present intention of exercising this authority other than in connection with the group's employee share schemes.

Under Section 89 of the Companies Act 1985, equity securities in the company may not be allotted for cash (other than in respect of an employee share scheme) without first being offered pro-rata to existing shareholders, unless the prior approval of shareholders is given in a general meeting.

The directors consider that it is in the best interests of the company that the relevant authority given at the AGM in 2006, which expires at the 2007 AGM, should be renewed on similar terms. Accordingly, a special resolution to this effect is proposed as resolution number 13 in the Notice of the forthcoming AGM.

The proposed authority will expire at the 2008 AGM and permits the directors, during this period, to issue up to an aggregate nominal amount of £7,685,090 (representing 5% of the issued share capital at 29 March 2007) without first offering them to existing shareholders.

Although this authority is renewed at each AGM, there is no intention that in any three-year period it would be used to issue more than 7.5% of the company's issued share capital on a non pre-emptive basis.

9.3 Amendment of the Articles of Association
Resolution number 14 in the Notice of the forthcoming AGM proposes that amendments be made to the company's Articles of Association to allow it to take advantage of the new electronic communications provisions in the Companies Act 2006 ("the 2006 Act"). The principal changes relating to electronic communications introduced by the 2006 Act enable a company to use electronic communications as the default position when providing documents such as the annual report and accounts to shareholders by placing such documents on a website, rather than sending them in hard copy. Further information is set out in the letter from the chairman attached to the Notice.

10. 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. Further information about the company's policy is set out in the corporate social responsibility statement on pages 43 to 46.

11. Charitable donations
The donations made to charities during the year are also set out in the corporate social responsibility statement on pages 43 to 46.

By order of the Board

P. Weaver

P Weaver FCIS
Company secretary
29 March 2007

Corporate social responsibility statement

Contents

1. Our business

1.1 Ethical conduct

We recognise the obligations we have towards our staff, shareholders, customers, suppliers, competitors and the community as a whole. We believe our reputation, together with the trust and confidence of those with whom we deal, to be one of our most valuable assets. In order to keep this reputation and trust, we demand and maintain the highest ethical standards in carrying out our business activities.

All employees are required to abide by our ethical policy, which prohibits all forms of illegal or immoral behaviour. It can be found on the company's website and intranet. The policy helps to uphold the reputation of our company and staff, and maintains public confidence in LogicaCMG.

Staff are encouraged to promptly report any potentially illegal, improper and/or unethical conduct that they become aware of at their workplace or in connection with their work. We believe we have an environment that enables staff to raise genuine and legitimate concerns internally. However, in the event that staff believe their reporting to line management may result in harassment, victimisation or undue distress, they may contact a confidential helpline to report matters. The helpline provides an opportunity for concerns to be investigated and for appropriate action to be taken to ensure that the matter is resolved effectively.

1.2 Customers

We strongly believe that integrity in dealings with customers is a prerequisite for a successful and sustained business relationship.

We operate a highly effective and efficient organisation, focused on meeting customer objectives. Our aim is to provide products and services which give fair value and consistent quality, reliability and safety in return for fair reward. We operate policies of continual improvement, of both processes and the skills of our staff, to take best advantage of advances in technology. This safeguards our operations for the future, ensuring that we continue to add value to our customers' businesses.

This is underpinned by a consistent approach to the way we conduct our work. This approach, embodied in our Cortex business management system – a set of best practice business processes which provide a framework for everything we do – is based on nearly 40 years experience in the IT industry.

To cater for the wide variety of work we do, we aim for a balance between flexibility in the way we operate and tight control to consistently meet customer expectations.

We have clear and strong lines of communication which allow us to respond quickly and efficiently to customer and market requirements, and our customers receive a consistent service across geographies, industries and technology areas. Our sales effort and delivery capability are aligned in order to ensure that we can successfully and consistently deliver what we promise.

1.3 Business partners and suppliers

As with our relationships with our other stakeholders, we aim to develop relationships and improve networking with business partners and suppliers based on mutual trust. We believe one of our major strengths is our approach to alliances and partnerships with customers. Many of our new contracts come through these alliances and our partners' contributions help us to deliver the solutions required by our customers and the market.

The company's alliance management programme is key to understanding evolving strategies and teaming together on integrated solutions with a strong emphasis on innovation, execution, and collaboration. Our global strategic alliances have been strengthened, particularly our relationships with technology market leaders SAP, Microsoft, IBM and HP, but also with Oracle and Cisco. The value to the business has been reflected in significant joint contract wins, taking advantage of LogicaCMG's new Global Service Delivery capabilities.

Our clients appreciate the ability to offer, through partnership, the best combination of state-of-the-art technology and world-class products, strong customer relations and deep industry knowledge and experience, combined with the capacity to implement and deliver value-added, mission-critical, repeatable global solutions on time and within budget.

1.4 Community

LogicaCMG's chief contribution to local communities is achieved through its staff. With around 40,000 employees in 41 countries across the globe, the company not only brings employment, but also seeks

Corporate social responsibility statement (continued)

to make a positive contribution to society by encouraging staff to support and participate in the communities in which we operate.

For example, LogicaCMG in the Netherlands has a social and community investment programme called 'Bloom'. This programme is operated in partnership with Unicef, with the theme of 'developing people in order to combat poverty'. The programme involves the organisation of staff fundraising events and the free delivery of manpower and ICT knowledge to projects in developing countries. Fundraising events have included a sponsored run, a tennis tournament and a world championship football party and have already resulted in contributions amounting to €20,000 for Unicef. This funding has meant that about 700 children in developing countries will have the opportunity to go to school. The 'Bloom' programme is expected to run for at least a further three years in its current form.

1.5 Environment

The company believes that, by their nature, the group's operations have a minimal impact on the environment. However, we acknowledge that there are inevitable environmental impacts associated with daily operations. We aim to minimise any harmful effects and consider the development and implementation of environmental standards to achieve this to be of great importance. As such, we strongly encourage the 3 Rs:

- reduce
- re-use
- recycle.

In the course of our operations we seek to identify opportunities to reduce consumption of energy, water and other natural resources. We also strive to re-use and recycle where possible and dispose of non-recyclable items responsibly, thereby minimising our impact on the environment.

Our environmental policy is communicated on the company's website and intranet, and we have allocated management resources to implement the policy across the group. It is hoped that by adopting simple, environmentally friendly initiatives, the company will raise awareness amongst stakeholders and the wider community.

The company regularly reviews its environmental policy to ensure that it reflects changes in regulations and best practice. We aim to continue to manage the impact of our operations and develop initiatives to improve our environmental footprint.

In 2005, we commissioned an independent report on our emissions in the UK to quantify the extent of the impact. The majority of LogicaCMG UK's emissions originate from the use of electricity, gas and water supply, business travel/ transport and waste.

In 2006, we took the next step and initiated an environmental campaign entitled "Stamp down our Carbon Footprint". The approach adopted has been to pilot schemes in individual business units first and then use the lessons learned to scale up across the UK. The initiatives, which will continue to be fully rolled out across the UK in 2007, follow the 3 Rs closely and include:

Reduce:

- raising awareness through targeted communications and seminars to help our staff, and their families and friends, reduce energy use at home, as well as at work
- improved powering down of our facilities overnight and at weekends
- encouraging reduced business travel and use of conferencing technology
- upgrading of our office equipment to fewer and more energy-efficient devices.

Re-use:

- replacing, where possible, the reliance on disposable items with re-useable items.

Recycle:

- switching to more sustainable sources of electricity to power our offices
- improving our recycling facilities.

Already in 2006, we made savings of over 2,500 tonnes of carbon dioxide through the switching to more carbon friendly electricity suppliers, as well as unit-led pilot schemes that reduced business travel emissions by over 30%, and increased recycling by 20%.

As we work to ensure that our operations will result in a cleaner environment, we intend to maintain the continual improvement of our products, processes and services. An important expression of this commitment is the development of the LogicaCMG Environmental Management System (EMS), which operates to an accredited standard to support the achievement of responsible management in our business and environmental goals.

The LogicaCMG EMS develops management programmes to reduce pollution, conserve resources and gauge performance results in its everyday operations, then applies these standards to its strategic partnerships. We work with partners nationwide to overcome barriers to environmental improvement and constantly seek to demonstrate environmental acceptability to our stakeholders.

LogicaCMG has met the FTSE Group's corporate responsibility criteria and is a constituent company in the FTSE4Good Index Series. Created by the FTSE Group, the global index company, the FTSE4Good Index Series is designed to identify companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series are working towards environmental sustainability, developing positive relationships with stakeholders and up-holding and supporting universal human rights.

2. Our employees

2.1 Releasing potential

The merging of LogicaCMG, Unilog and most recently WM-data brings together three businesses, each of which recognised that their reputation and their ability to successfully deliver to customers was founded on the quality of their people. The values espoused by each business were very similar.

During 2006, significant steps were taken to capitalise upon these strong legacies and to create a company with one vision, one set of values and one set of systems and processes.

"The LogicaCMG Way" is based upon a number of important principles:

- openness, communication and involvement
- mutual respect, fairness and meritocracy
- leadership
- professionalism and quality
- recruiting the best people and releasing their potential
- loyalty
- client focus and teamwork.

The integration of Unilog and the relaunch of the LogicaCMG brand in the market has provided an ideal opportunity to communicate our principles and strategy throughout the organisation as well as being a focal point of communications with our new colleagues in Unilog. Similar focus will be given to extending these messages into WM-data in 2007.

Developing our capability, delivering value to our customers on a global basis and securing long-term profitable growth is founded on releasing the potential of our employees. Each of the businesses already had in place established, effective academies that delivered high-quality programmes in areas such as leadership and technical and personal skills.

We are building on this strong foundation to create a world-class corporate 'university' for personal and professional development. It will link the transfer, exchange and creation of knowledge to our strategic corporate objectives and thus be the power behind ongoing innovation of LogicaCMG products, services and processes globally.

We are currently bringing the 'universities' together, streamlining the various offerings and creating new programmes; for example a mini-MBA programme is being introduced to support group leadership development. Programmes exist across a range of technical, delivery and personal skill areas delivered by both traditional classroom methods and e-learning. We have plans to extend our existing relationships with renowned business schools and to align programmes with our core performance management system in support of achieving worldwide standards and providing accreditation.

2.2 Communications and employee satisfaction

LogicaCMG recognises that, as a rapidly changing, knowledge-based business, communication is a critical ingredient for success. We place emphasis on both formal and informal communication.

The manager has a key role to play in communication. Managers are accessible, encourage collaboration and the development of ideas that contribute to business performance and continuous improvement.

In addition to face-to-face meetings, we use "Net meetings" which allow business management to talk frequently to employees, without the need to bring them together in one place. In particular, as a way of communicating on business performance, priorities and changes. This approach also provides an important and direct way for employees to ask questions and provide feedback to senior management.

We value feedback and suggestions from employees. Each year we run an on-line employee survey in multiple languages, as a means of gathering feedback from employees on what it is like to work for LogicaCMG and to assist in identifying areas for further improvement. Following the acquisitions 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 2007.

We also recognise the value of formal communications through employee consultation committees and works councils. The LogicaCMG European Works Council, with elected representatives, is a forum for dialogue with employees in Europe. At a country level, several local committees or councils exist to exchange information, increase understanding, enhance decision-making and ensure the effective implementation of changes.

2.3 A meritocracy

The group embraces diversity. Employees of both genders, from different nations, cultures, ethnic groups, generations and backgrounds contribute their skills and different perspectives to improving our solutions and delivering to our customers.

It is a cornerstone of our ethos that LogicaCMG is a meritocracy, where all employees are recognised and rewarded on the basis of their performance, effort, contribution and achievements.

The company's performance management and personal development processes are being rolled out through the extended group. They are based on the following principles:

- that employees have a clear understanding of how they contribute to the business and have clear personal objectives, aligned to the business strategy and objectives
- career pathways that identify key capabilities and behaviours at different competency levels across core career paths
- personal development, training and succession planning to support personal growth
- an annual review of performance that drives decisions about pay and career progression.

2.4 Health and safety

We aim to ensure a safe and healthy working environment for all our employees, outside contractors and visitors, not only on LogicaCMG premises, but also for those staff and contractors working on client sites. The company aims to comply with all relevant local legislation or regulations, and best practice guidelines recommended by national health and safety authorities. We also liaise with staff regarding our policies and practices so that we can continue to maintain a healthy, safe and enjoyable environment.

Due to increasing global security concerns, we continue to upgrade our policies to ensure our people are able to operate safely in all countries. Where appropriate, employees have access to online information regarding international safety and security provided by an expert security company. This security company is also used to vet travel arrangements and provide safeguards as required. As well as this, guidance issued by organisations such as the UK Foreign & Commonwealth Office is taken into account.

3. Charity

Our staff have always been 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. For example in response to the tsunami disaster which struck Asia on 26 December 2004, the company established the Tsunami Support Fund with a donation of £100,000 from the company and further contributions from staff. The purpose of the Fund was to raise money for medium and long-term projects relating to the education of affected children in that region.

Corporate social responsibility statement (continued)

In the UK the company also implemented an innovative scheme to benefit two of the country's largest child support charities, the National Society for the Prevention of Cruelty to Children (NSPCC) and Children First. As part of this scheme we pay the two organisations a proportion of the receipts received from all of our clients who signed up to our prompt payment plan. The money raised from this prompt payment scheme is used for a variety of programmes across the two charities. These include young people's centres, family support services and treatment and therapeutic services, which are core areas of both charities' programmes. In future we propose applying monies collected in this way across these three services, based on where our staff prefer to spend the money. Total UK charitable donations in 2006 were £45,000.

We believe that being active in the wider community is an essential part of corporate responsibility and, as such, is an essential element of the way we run our business. We believe our charitable involvement and social responsibility are intrinsic to the future of our people and our company.

Many staff contribute their own time to a variety of charitable activities. The company supports and encourages such activities and has put together a 'voluntary' database on which employees can list the charitable works in which they participate. It is anticipated that this will prove helpful in strengthening networks across the company and enable many of the organisations we support to benefit from our wide range of contacts. Our objective is to create a mutually supportive network which helps to add value to the various charitable organisations in which we are involved.

4. Political contributions

Our policy is not to make any donations to political parties. However, the UK Political Parties, Elections and Referendums Act 2000 ("the Act"), which came into force in February 2001, defines political donations and political expenditure so broadly that some of our activities may fall within the definitions in the legislation. Whilst we do not intend to alter our normal activities, we will continue to seek shareholder authority when necessary for such expenditure to ensure that the requirements of the Act are met.

Corporate governance

Contents

1. Corporate governance report
The principal corporate governance guidance that applies to companies listed with the UK Listing Authority is contained in the 2003 Financial Reporting Council's Combined Code ("the Combined Code"). The Combined Code, which operates on a "comply or explain" basis, incorporates, amongst others, recommendations by the Higgs Review regarding the role of non-executive directors, and the Smith Review which refers to audit committees. Through its commitment to the highest standards of corporate governance, the Board endorses and supports the essential elements of the Combined Code and, apart from a few limited exceptions as described below, believes the group has fully complied with the Combined Code throughout 2006; where it has not, an explanation has been provided. The company has complied with the listing requirements of the UK Listing Authority as updated on 1 July 2005 and those of Euronext Amsterdam and the Dutch Authority for the Financial Markets (AFM) in the Netherlands. Following the company's acquisition of WM-data AB, the company undertook to have its shares traded on the external list of the Nordic exchange. As such, the company monitors compliance 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. In addition, the company complied with the requirements of the Autorité des Marchés Financiers (AMF), the French listing regulator, in respect of Unilog S.A.'s listing on Euronext Paris between 13 October 2005 and 10 July 2006 when Unilog's shares were delisted.

2. The Board
LogicaCMG is led by an effective and objective Board, which is believed to be fundamental to the success of the group. The Board utilises a framework of prudent and effective controls in order to determine and manage the group's goals and 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 internal audit, quality assurance and risk management functions. At board meetings, both routine and ad hoc matters are considered. In particular, the Board considers and, where necessary, debates the group chief executive's report.
This report includes, but is not limited to, the following matters:

- budgets and strategy
- financial performance and forecasts
- corporate activities
- human resources
- shareholder and market matters.

Any concerns that members of the Board may have regarding the running of the company, or a proposed action, are recorded in the Board minutes or, where appropriate, in relevant committee minutes.

The Board ordinarily meets six times a year and is available to hold additional meetings when circumstances require (six in 2006). The number of meetings is judged to be sufficient to discharge the Board's duties effectively. In order to reflect the global 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 2006.

2.1 Board composition
The Board, which encompasses the Audit, Remuneration and Nomination Committees, is made up of directors from a variety of backgrounds who bring together a wide range of skills and experience to benefit the company. By the end of 2006, the Board comprised the chairman (non-independent), five executive directors, five independent non-executive directors and one further non-independent non-executive director.

On 10 January 2006 and 10 October 2006, Didier Herrmann and Crister Stjernfelt were appointed as executive directors following the acquisition of Unilog S.A. and WM-data AB, respectively. Consequently, no search consultancy or open advertising was undertaken in either case. On 1 January 2007, Noël Harwerth and Wolfhart Hauser were appointed as independent non-executive directors as part of the company's ongoing succession planning to ensure an appropriate balance of skills and experience on the Board. Helmut Mamsch, who has completed nine years as a director of Logica and LogicaCMG, will retire as deputy chairman

Corporate governance (continued)

and senior independent non-executive director at the 2007 AGM and will be replaced by Wim Dik.

Non-executive directors are appointed for terms of three years and are proposed for re-election in accordance with the terms of the company's Articles of Association. The appointments of both Didier Herrmann and Crister Stjernfelt were endorsed by the Nomination Committee before receiving final approval from the Board. As mentioned above, Crister Stjernfelt, Noël Harwerth and Wolfhart Hauser have been appointed since the last AGM and, therefore, will be proposed for election at the forthcoming AGM. The Nomination Committee, in accordance with the committee's terms of reference and the company's Articles of Association has proposed Cor Stutterheim, Martin Read and Seamus Keating for re-election at the 2007 AGM. Directors submitting themselves for re-election at the AGM have been subject to a rigorous, formal performance evaluation. They have demonstrated their commitment to the company and have performed effectively during the year. Noël Harwerth and Wolfhart Hauser were appointed following the completion of a search undertaken by an independent executive search agency. Identified candidates underwent a series of interviews and received a unanimous recommendation for their appointment from the Nomination Committee. Copies of the directors' terms and conditions of appointment are available on request from the company secretary.

The names and biographical details of the directors, including those seeking election and re-election at the 2007 AGM, can be found on pages 34 to 35.

2.2 Directors' independence

Throughout 2006, non-executive directors were considered independent under the Combined Code, with the exception of Cor Stutterheim and Gérard Philippot, according to provisions A.2.2 and A.3.1 respectively. Both Cor Stutterheim and Gérard Philippot are believed to be independent of character and judgement by the Board, but due to their previous executive positions in CMG plc and Unilog S.A. respectively, they are not considered independent by the Combined Code. Cor Stutterheim was last re-elected at the 2005 AGM and Gérard Philippot's executive position within Unilog S.A. ended on 3 March 2006, when a consultancy agreement came into effect. The company believes that all non-executive directors bring relevant experience 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 pre-determined strategic goals.

During the year, the company believes that neither the chairman, nor any of the non-executives, have held significant commitments outside the company which would interfere with their ability to effectively execute their responsibilities.

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

The company's website (www.logicacmg.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 present a balanced and understandable assessment of the company's position and prospects.

The Board is made aware of shareholders' views through face-to-face meetings, presentations and feedback surveys. If shareholders or investors do not wish to follow the usual methods of communication through the chairman, group chief executive or chief financial officer, the Board's senior independent director, Helmut Mamsch, (and following the 2007 AGM, Wim Dik) are available and can be contacted through the company secretary's office. Helmut Mamsch and all other non-executive directors are regularly updated on shareholder and market matters through internal briefings and the provision of external analysis reports.

2.4 Directors' roles and training

There is a clear division of responsibility between the running of the Board by the chairman Cor Stutterheim, and the executive responsibility for the running of the business by the group chief executive, Martin Read. The non-executive chairman liaises with the group chief executive on strategic issues and manages the Board and shareholder meetings.

All executive directors have a set of objectives, which are updated annually or as required.

Upon appointment all directors undergo an induction programme, which is specifically designed to their individual requirements. In addition, they receive appropriate training and ongoing updates to improve their knowledge and skills and to enable them to discharge their duties effectively. The directors' training requirements remain subject to continuous review. Didier Herrmann, Crister Stjernfelt, Noël Harwerth and Wolfhart Hauser have all received tutelage on the remit and scope of the business and have made, or will be making, a number of guided site visits.

2.5 Company secretary

The company secretary is responsible for providing regulatory updates to the Board and to specific directors, depending upon their participation in the various board committees. This information includes trading updates and surveys from investors and analysts. He is also responsible for the timely dissemination of reliable and relevant information to help ensure directors can discharge their responsibilities. All directors have access to the company secretary and, on request, to independent professional advice. In addition, the company secretary is responsible for ensuring good communication within the Board and between senior management and the non-executive directors. The company secretary acts as secretary to each board committee.

2.6 Board performance

The Board is subject to an annual performance review. In 2006, the Board was appraised internally using a two-stage process. The first phase involved each director completing a comprehensive questionnaire, which covered areas including, but not limited to, the following:

- board composition
- committee/individual performance
- roles and responsibilities
- logistics/processes
- achievements
- non-executive director assessment
- board effectiveness.

Following this, interviews were conducted between individual non-executive directors and the chairman, with the company secretary in attendance. The interviews not only covered the areas dealt with by the questionnaires but also other key topics such as strategy, succession planning, training and board relationships. All information resulting from the questionnaire and interviews was compiled into a report by the company secretary working in conjunction with the chairman, and will be presented to the Board in 2007.

The overall results of the 2005 board performance review, which were presented in 2006, were positive. However, the following actions were taken to enhance the future operation of the Board:

- additional material, including group commercial reports and executive committee human resource reports are now routinely circulated to the non-executive directors. Further information is circulated to those who wish to receive it
- the number of scheduled board events, including dinners, for 2006 was increased to facilitate the operation and free flow of information within the Board
- the Nomination Committee implemented its succession planning programme to address the needs of the Board and has started to address these issues during 2006
- additional dedicated time was made available for directors to discuss the company's strategy pre and post the acquisition of Unilog.

Between meetings, the non-executive directors are regularly updated on appropriate business matters and topical issues by the chairman and group chief executive. In addition, the chairman holds meetings with the non-executive directors, without the executive directors present, to consider any issues regarding the performance of the Board, its committees and the executive team.

The performance of the chairman was reviewed, in his absence, by the non-executive directors led by the senior independent non-executive director, Helmut Mamsch. The outcome of this review was then reported to the chairman. All directors who have served on the Board for a period in excess of six years were subject to a particularly rigorous review. The Board has concluded, following the above review, that the Board and its sub-committees operate effectively and that each director contributes to the overall effectiveness and success of the group.

3. Terms of reference

Through the terms of reference for the Board and relevant committees, the role, duties and responsibilities of directors and board committees are clearly defined. In keeping with the principles of the Combined Code, the Board implements best corporate governance practice through these terms of reference.

The Board has resolved to establish committees of the Board to be known as the audit, nomination and remuneration committees and reserves the authority to appoint or remove the committee chairman or any of its members.

The Board and its committees have written terms of reference, which are normally reviewed annually and may be found on the company's website (www.logicacmg.com) or if a hard copy is required by application to the company secretary. Matters reserved entirely for the Board include:

- financial matters of a material nature or value, including operating, budget and strategic plans, interim and preliminary statements, dividend payments, capital investment, acquisitions or divestments and the value of any goodwill write-off relating to subsidiary company activities
- approval of sales contracts of a material size
- adoption of any significant change in accounting policies
- corporate/administrative matters such as the size and composition of the Board, its committees and authorisation levels
- annual report and accounts
- resolutions to be placed before shareholders at an annual (or extraordinary) general meeting, including any approval to be sought for the report of any sub-committees, and
- all stock exchange circulars and listing particulars.

The Board is responsible for a number of group policies and practices including risk management, ethics, and the environment. Further detail on the latter two policies can be found within the corporate social responsibility statement on pages 43 to 46.

Matters falling under the terms of reference are, ordinarily, dealt with at scheduled meetings. Where this is inappropriate, the company secretary is responsible for ensuring that board members are advised of the issue. Procedures for dealing with matters between scheduled board meetings are in place and detailed separately. Following consideration by the Board, certain matters may be delegated to a committee of the Board or an individual director. Such matters may include the approval of non-routine stock exchange announcements and the grant of employee share options, allotment of company shares, application of the company's seal and approval of banking transactions falling within the company's treasury policy; day-to-day management of the company is delegated to the executive directors.

Committees are able to, and do, invite directors who are not members to attend particular meetings. Minutes of committee meetings are sent, at their request, to those directors who are not members of the committee. All committees, as well as directors individually, have the means and resources to access independent professional advice at the company's expense.

4. Audit Committee

The company's Audit Committee is constituted in accordance with the recommendations of the Combined Code and its terms of reference reflect 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 and 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 committee is normally comprised of three or more independent non-executive directors and any two members constitute a quorum. The committee meets at least four times a year.

The Audit Committee, which comprises all independent non-executive directors, is chaired by Roger Payne and includes Angela Knight, George Loudon, Wim Dik and Wolfhart Hauser. Wolfhart Hauser joined the audit committee with effect from 1 January 2007. The Board considers

Corporate governance (continued)

Roger Payne to have recent and relevant financial experience following his role as a former financial director of a FTSE 100 listed company.

The chairman of the audit committee and the committee itself meet at least four times a year with the external auditors. The group chief executive, chief financial officer, group financial controller, other appropriate specialist functional managers and the head of internal audit attend the meetings at the request of the committee.

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 and did not find it necessary to seek external advice. During the year, the committee specifically considered 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 2006
- the review and approval of the scope of PwC's proposed fee and audit programme, the latter of which was considered in 2005 and 2006. The committee subsequently received and considered PwC's report, which summarised the conclusions from their 2005 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. An internal audit was also undertaken to ensure continuing compliance with the company's policy
- the selection of a new PwC signing partner. This followed the retirement of the incumbent partner in accordance with best practice and PwC's own rules on rotation of partners
- the Audit Committee reviewed the 2005 full-year preliminary and 2006 interim announcements
- the review of the company's 2005 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 Audit Committee received reports and updates from the company's internal audit and quality assurance functions. The internal audit and quality assurance plans for 2006 were reviewed and approved. These reports and updates additionally covered the company's management of its internal controls
- the Audit Committee received reports from the company's Risk Management (Cortex Strategy) Committee (RM(CS)C) 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 RM(CS)C. In addition, the impact of changing legislation and regulation, for example the changes in the definition of fraud, were considered and where necessary, appropriate actions were taken
- the Audit Committee reviewed the financial accounting of the company's defined benefit pension schemes
- the Audit Committee considered proposed amendments to the borrowing powers contained in the company's Articles of Association. The proposed amendments were approved and recommended to the Board for presentation to shareholders at the 2006 AGM. The new Articles of Association were approved by shareholders on 17 May 2006
- the Audit Committee undertook its annual review of the company's tax and treasury policies in accordance with its terms of reference. Both policies were approved
- at each Audit Committee meeting, the committee reviews any matters, as required, relating to a number of standing items including major acquisitions management and 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 (further details regarding the policy can be found in the corporate social responsibility statement), compliance with the company's code of ethical conduct and any other special investigations falling under the terms of reference of the audit committee.

4.1 Internal control

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

The Board, through the audit committee, is responsible for the group's system of internal control and for reviewing its effectiveness. The effectiveness of internal control was reviewed in 2006 and found to be effective. As such, procedures have been established to ensure that the group can comply with the guidance on internal controls issued by the Turnbull Committee and those guidelines included in the Combined Code. The Board has reviewed the effectiveness of the systems of internal control for the accounting year and the period to approval of the financial statements. No significant weaknesses were noted. This review covered all material controls, including financial, operational and compliance controls and risk management systems and is in accordance with the Turnbull guidance. The review did not cover the activities of Unilog S.A. or WM-data AB prior to their acquisition on 13 January 2006 and 13 October 2006 respectively. However, action is being taken to ensure that the Unilog and WM-data businesses have suitable internal controls in place, which are consistent with the requirements of the Turnbull Committee and the Combined Code.

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. It should be understood that no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

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 strategic objectives of the group are captured in a strategic plan, 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 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 annually to complete a full self-assessment process. 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.

4.2 Risk management

The Board recognises the need to understand and control the variety of risks to which the company is exposed. In order to combat these challenges, the Board oversees the RM(CS)C chaired by the chief financial officer. Through the Audit Committee and the RM(CS)C the Board exercises a framework for managing risk within the group. Five practice panels support the RM(CS)C and are responsible for the areas of delivery, operations, finance, human resources, and sales and marketing. In conjunction with these panels, the RM(CS)C is responsible for the regular evaluation of inherent risks within the business and the identification of controls to address them.

The risk process identifies, evaluates and manages significant risks faced by the group. These risks are first prioritised and then procedures and processes are put in place to address them. Risks are assessed with reference to the achievement of the group's business objectives and according to current market 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 the 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. The internal audit and quality assurance functions perform regular audits and are part of the fulfilment 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 are circulated to all Board members.

The risks the Board deems to be material are listed on page 54.

4.3 External auditors

The external auditors provide a supplementary, independent and autonomous 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 through various mechanisms 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 both the group financial controller and company secretary before being passed to the chief financial officer who escalates the proposal, if appropriate, to the Audit Committee where written approval must be obtained. Details regarding the remuneration of the external auditors in terms of audit and non-audit work can be found on page 81.

5. 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.

6. Nomination Committee

The Nomination Committee, which comprises a majority of independent non-executives, is chaired by Cor Stutterheim and includes Martin Read, Helmut Mamsch, Wim Dik and George Loudon. 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 Nomination Committee oversees the search and selection process of new directors and aims to do so within the parameters set by the Combined Code. In the event of a vacancy on the Board, the committee may engage external independent professional advisers to assist in the search for suitable candidates. A shortlist of candidates will be established and selected candidates will be interviewed and recommended for consideration by the Board. The Nomination Committee was convened on four occasions during 2006. Other directors are entitled to attend at the invitation of the Nomination Committee.

During 2006 the Nomination 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 Board is conscious that it is not currently compliant with provision A.3.2 of the Combined Code in respect of having a majority of independent directors. However, as a result of this review, Noël Harwerth and Wolfhart Hauser were appointed as independent non-executive directors on 1 January 2007. The committee

Corporate governance (continued)

acknowledges that the appointment of two new independent non-executive directors and the forthcoming retirement of Helmut Mamsch will not bring the Board's composition within best practice guidelines. The committee will continue to work to address the balance between independent and non-independent directors over the coming years.

In common with other members of the Board, the members of the committee are provided with an induction programme when they join the Board. Ongoing training includes attendance at seminars and briefings by external advisers where applicable. Attention is given, where relevant, to appropriate training programmes for new members of the committee.

7. Remuneration Committee
The company's Remuneration Committee is constituted in accordance with the recommendations of the Combined Code.

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. Following a formal review, Kepler Associates were appointed as 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 Remuneration Committee's membership is comprised wholly of independent non-executive directors and two members constitute a quorum. The committee routinely meets at least five times a year and is chaired by Angela Knight. Its other members are Noël Harwerth, Wolfhart Hauser, Helmut Mamsch and George Loudon. Noël Harwerth and Wolfhart Hauser joined the Remuneration Committee with effect from 1 January 2007.

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. Details of the committee's main functions and its remuneration policies for directors and senior management are set out on pages 55 to 65. The group chief executive and the human resources director (non-board member) attend the Remuneration Committee meetings at the invitation of the committee.

8. Board attendance
The table below shows the attendance of directors at scheduled meetings of the Board and Audit, Remuneration and Nominations Committees during 2006.

All Board members attended the 2006 AGM, except Cor Stutterheim who was unable to attend due to illness. In addition, an EGM was held in relation to the acquisition of WM-data AB, which was attended by Cor Stutterheim, Martin Read, Jim McKenna, Seamus Keating and George Loudon.

9. External appointments
Executive directors are permitted by the company to accept and maintain up to two non-executive appointments at any one time. Although we are currently compliant with provision A.4.5 of the Combined Code we were not compliant for the full duration of 2006. It is the company's policy that individuals are not generally permitted to hold more than one non-executive appointment with a UK FTSE 100 company. Martin Read had two non-executive appointments with FTSE 100 listed companies for the first half of 2006. Both of these appointments were effective prior to the publication of the revised Combined Code; however he resigned from one of these boards during the second half of 2006.

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.

Board attendance

	Board†	Remuneration Committee	Audit Committee	Nomination Committee
Maximum number of scheduled meetings per director	6	5	5	4
Cor Stutterheim	5	n/a	n/a	3
Martin Read	6	3*	n/a	4
Jim McKenna	6	n/a	n/a	n/a
Seamus Keating	6	n/a	5*	n/a
Didier Herrmann	5	n/a	n/a	n/a
Crister Stjernfelt	1#	n/a	n/a	n/a
Helmut Mamsch	5	5	n/a	4
Wim Dik	5	n/a	4	3
Angela Knight	6	5	5	3*
George Loudon	5	4	4	4
Roger Payne	6	n/a	5	2*
Gérard Philippot	5	n/a	n/a	n/a

†Does not include separate meetings held for the purpose of considering and approving the acquisition of WM-data AB.
*In attendance for specific discussions by invitation of the committee.
#Only one meeting was held in 2006 following the appointment of Crister Stjernfelt.

10. Statement of directors' responsibilities
The directors are responsible for preparing the annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and for preparing the parent company financial statements and the report of the Remuneration Committee 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 Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 IFRS (as adopted by the European Union) and with regard to the parent company financial statements, whether applicable 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 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 hence 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.

By order of the Board

P. Weaver

P Weaver FCIS
Company secretary
29 March 2007

Risk factors

The Board continues to identify and review the risks which could have a material effect on the business, financial condition, prospects and share price of LogicaCMG. The risks that the Board deems to be material are listed below. Working with the Executive Committee, the Board continually reviews the actions needed to mitigate these risks.

1

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 services and consultancy market. The group provides an infrastructure which supports the development of its personnel through programmes such as succession planning, leadership, talent management and technical development. 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 onshore, nearshore and offshore locations, could have serious consequences on the group's ability to service client contracts.

2

Responsiveness to technological change

Many markets in which the group operates, such as Telecoms and Media have been particularly susceptible to rapidly changing technologies, regulation, economic conditions and fluctuations in client demand. 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. The implementation of an effective research and development programme that exploits technology advancements to produce innovative products is essential to both stimulate new client revenue opportunities and meet existing needs. 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.

3

Dependence on major clients and contracts

A significant part of the group's revenue is derived from large contracts and framework agreements. Although no one customer accounts for more than 3% of revenue, a major client delaying or failing to renew a contract could adversely affect the results of the group.

4

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 IT 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.

5

Exposure to country and regional risk (political, economic, social), particularly in Europe and India

As the group operates on an international basis, it is exposed to the risk of political, economic or social unrest in the territories in which it operates. 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 maintains business continuity plans to endeavour to deal with many situations but there can be no assurance that the group's results would not be affected by such an event.

6

Risk management and control in light of complexity and variability of client contracts

Many contracts are negotiated on individual case-by-case bases with clients, which can be both a risk and an opportunity. A portion of the group's revenue is derived from fixed price, unit-price or combined fixed price and unit-priced contracts.

In addition, the group enters managed service and fully outsourced contracts which typically are longer in duration. The group must provide for changes in services and personnel over the term of these contracts. The complexity, variability and duration of client contracts make risk management and control more difficult. If the group fails to adequately assess its risks, implement the required controls or monitor its position, any resulting failure to deliver the contract could adversely affect the results of the group, its relationship with the client or its reputation.

7

Reputational risk resulting from non-delivery

The group's reputation for delivering on time, high-quality, professional services is integral to maintaining and developing its client relationships. It is recognised that the group's differentiation lies in its deep industry knowledge, technical expertise, strong delivery skills and the long-term nature of its client relationships. Many of the projects the group undertakes are critical to the business operations and information systems of its clients. The failure or inability of the group to meet its clients' expectations could have a material adverse effect on the clients' operations and could result in damage to the group's reputation.

For strategic objectives, see pages **2** to **9**.

For glossary of Key Performance Indicators see page **128**.

Report of the Remuneration Committee

Contents

1. Introduction

This report has been prepared by the Remuneration Committee and has been approved by the Board as a whole for submission to shareholders.

The report comprises the following:

Remuneration policy and arrangements *(unaudited)* – sections 2 to 7:

- information about the Board directors, the Remuneration Committee, its members and advisers
- the remuneration policy for executive directors and the Executive Committee
- outline of the remuneration arrangements for executive directors and non-executive directors
- detailed information about the group's share schemes.

Remuneration review *(audited)* – section 8:

- tabular information on directors' emoluments, pension arrangements and share awards.

2. The Remuneration Committee

2.1 Committee membership

The committee is composed entirely of independent non-executive directors. The members of the committee are Angela Knight (chairman), George Loudon and Helmut Mamsch and Noël Harwerth with effect from 1 January 2007.

2.2 Role of the committee

The committee met five times during 2006. Details of attendance by individual members are contained in the corporate governance section on page 52.

The committee is responsible to both the Board and the shareholders for:

- setting the overall policy on senior executive remuneration
- determining the remuneration packages of each of the executive directors, the Executive Committee members, the company secretary and the head of internal audit
- reviewing and approving the remuneration of other senior management, and
- overseeing the operation of the company's employee share schemes.

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.

2.3 Advisers to the committee

During 2006 the committee appointed Kepler Associates as independent executive remuneration advisers. Kepler advises the committee on a range of executive compensation-related issues. Kepler did not provide any other advice or services to the group.

Watson Wyatt, the previous advisers to the committee, continue to act as advisers, actuaries and administrators to the LogicaCMG Defined Contribution Plan, as advisers and actuaries to the LogicaCMG Defined Benefit Plan and as investment advisers to the CMG UK Pension Scheme.

In addition, the committee seeks information from other independent sources and from the group chief executive (Martin Read), chief financial officer (Seamus Keating), group human resources director (Nigel Perks) and company secretary (Paul Weaver) as appropriate.

New Bridge Street Consultants provide assistance in relation to the administration of the group's share schemes.

3. Appointments to the executive board

The executive board of the group was strengthened by two appointments following the Unilog and WM-data acquisitions.

Didier Herrmann was appointed as an executive director on 10 January 2006 following the Unilog acquisition. His appointment was subsequently approved by shareholders at the 2006 Annual General Meeting (AGM).

Crister Stjernfelt was appointed as an executive director on 10 October 2006 following the WM-data acquisition. He will be proposed for election to the shareholders at the 2007 AGM.

4. Remuneration policy for executive directors

The long-term success of the group depends upon attracting and releasing the potential of highly motivated, committed and talented people to deliver superior performance.

Report of the Remuneration Committee (continued)

The remuneration policy for executive directors and executive committee members is designed to support and drive a performance-oriented culture in which individual rewards relate directly to their own performance, to that of the operations and functions in which they work and for which they are responsible, to the performance of the group as a whole and to the interests of shareholders.

In excess of 80% of the company's employees live and work outside the UK. In order to attract, motivate and retain high-calibre executives with the necessary leadership capabilities and experience, LogicaCMG provides competitive remuneration that reflects the international nature of the group and aligns the interests of executives with those of shareholders through the use of both performance-driven cash and equity-based awards in addition to base salary and benefits.

The committee regularly reviews its remuneration policy in the light of significant regulatory developments, market practice and shareholder expectations.

5. Outline of the remuneration arrangements for executive directors and executive committee members

5.1 Base salary

In line with the general remuneration policy the committee intends to continue paying market-competitive base salaries against suitable comparator companies. Broadly this will mean 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 very 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 in special cases.

Following a review of market data, and in line with the above approach, the committee has implemented increases in base salaries for executive directors in the range from 0% to 18.75%, with a median increase of 6.15%, effective from 1 January 2007.

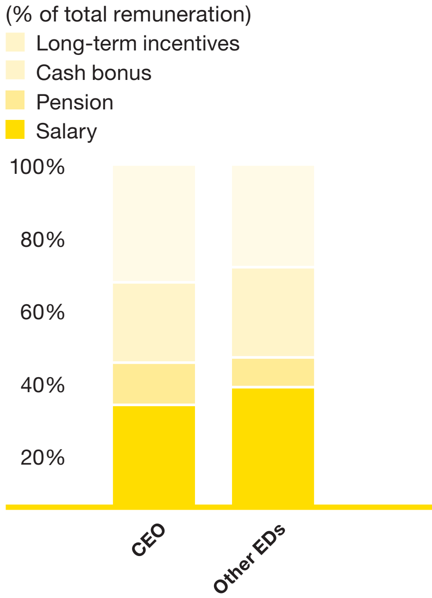
5.2 Incentive compensation

Target levels of remuneration for executive directors and executive committee members are set with reference to the median for the FTSE 50-150 and the group's international competitors. These comparator groups have similar characteristics to the group such as size (in both financial terms and with regard to the number and type of employees), complexity and international scope of operations.

During 2006, shareholders approved changes to the annual bonus and long-term incentive arrangements. These are described below.

Performance of the group and individual executives is rewarded by bonuses and share awards that can deliver total compensation at the upper quartile level for exceptional performance when compared to the group's international competitors. The chart below shows that the fair value of remuneration for executive directors is weighted most heavily towards the performance-related elements:

LogicaCMG executive director fair value pay mix



NB: Calculation assumes investment of 20% of net annual bonus in the Executive Equity Participation Plan 2006.

The fixed elements of remuneration charted are base salary and pension. The performance-related elements are the annual bonus, the Executive Equity Participation Plan and performance shares.

5.3 Annual bonus

The bonus an individual executive receives is determined as follows:

- a baseline bonus, expressed as a percentage of annual base salary, is generated based upon the performance of the group against an earnings per share (EPS*) target. EPS targets are not published as they are price-sensitive
- a multiplier of between 0.5 and 1.3 is applied to the baseline bonus depending on achievement against the group cash conversion target and
- a multiplier of zero or between 0.5 and 1.5 is applied determined by the executive's personal performance. If an executive director's personal performance is judged unacceptable, their multiplier may be zero, resulting in a zero bonus. From 2007, the multiplier range will be extended to between 0 and 1.5 to allow recognition of the full spectrum of performance.

During 2006, shareholders approved a proposal to increase the maximum bonus to 125% of salary (from 100%). At least 20% of the net annual bonus must be invested in shares through the Executive Equity Participation Plan (see 5.4.2).

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

5.4 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. The following plans are currently in place:

5.4.1 The Long Term Incentive Plan 2006

During 2006 shareholders approved the introduction of the new Long Term Incentive Plan (LTIP). This replaced the Executive Share Option Scheme 1996 (ESOS) as the primary long-term incentive arrangement for executive directors.

*The definition of EPS for bonus purposes in 2006 is EPS based on net profit attributable to ordinary shareholders excluding 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 those intangible assets initially recognised at fair value in a business combination and tax on those items, where applicable.

The main features of the LTIP are as follows:

- an annual award of shares can be made to executives where appropriate, which will be released after three years, provided that challenging performance targets have been achieved
- 50% of each award has an EPS# performance condition attached to it
- 50% has a relative Total Shareholder Return (TSR) performance condition
- 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.

The committee believes that including both EPS# and relative TSR conditions best reflects the true long-term performance of the company.

See 5.4.5 for details of the performance conditions and page 62 for details of conditional shares awarded to executive directors under this plan for the first time in 2006.

5.4.2 Executive Equity Participation Plan 2006

The Executive Equity Participation Plan 2006 (ExEPP) was approved by shareholders in 2006 and operates on substantially the same basis as the previous 1998 Executive Equity Partnership Plan which it replaces.

The plan allows executive directors and other senior executives by invitation to invest up to 50% of their after-tax annual bonus payment in company shares. Since 2006, executives are required to invest 20% of their net annual bonus in shares through 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 at no cost to the employee.

The percentage of shares that will vest at the end of the relevant three-year performance period is subject to the same stretching performance criteria as the LTIP award (see 5.4.1 and 5.4.5).

The principal differences between the 2006 and 1998 schemes are:

- whereas the 2006 scheme has a TSR and an EPS# performance condition each applying to one half of the award, the 1998 scheme only has an EPS# performance condition
- whereas in the 2006 scheme 30% of matching shares vest at EPS# growth of UK RPI plus 3% per annum, this is 20% in the 1998 scheme
- whereas in the 2006 scheme awards vest on a curved line basis between 30% and 100%, this is on a pro-rata basis between 20% and 100% in the 1998 scheme.

5.4.3 Executive Share Option Plan 2006

During 2006, shareholders approved the 2006 Executive Share Option Plan (ESOP). This scheme replaces the 1996 ESOS which had reached the end of its ten-year life. Final grants under the 1996 ESOS were made in 2006.

The LTIP replaced the ESOS for executive directors. However shareholders approved retaining a share option arrangement to provide an alternative in circumstances where the use of the LTIP may be inappropriate; for example, due to local taxation or securities regulations.

The 2006 scheme operates in substantially the same manner as the 1996 scheme. Awards are made (at no cost to the employee) to senior executives, managers or high-potential staff, or to recognise significant achievements. Awards are normally granted after the declaration of the group's preliminary results and are limited to a maximum face value of four times annual salary. They 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. The performance condition and associated vesting rules are the same as for the ExEPP 2006 and the LTIP (see graphs on page 58).

Since 2005, grants have been made without any retesting.

5.4.4 Unilog share-related plans

As part of the Unilog acquisition, Didier Herrmann was invited to participate in the Unilog Management Incentive. Company shares may be awarded in two tranches subject to the company achieving certain performance conditions in one or two financial years. Up to one half of the award will be released after 31 December 2006, subject to achieving an EPS performance condition for financial year 2006. The other half of the award will be released after 31 December 2007, subject to achieving an EPS# performance condition for financial years 2006 and 2007 (details on page 62).

Didier Herrmann holds Unilog share options (see page 65). Following the acquisition, a share transfer agreement ('liquidity agreement') was put in place with option holders allowing, following exercise, the resulting Unilog shares to be transferred to LogicaCMG for either new LogicaCMG shares or the cash equivalent.

Details of the liquidity agreement and the Unilog share option arrangements are found on page 100.

5.4.5 Performance conditions

The committee sets performance conditions each time an award is made under the long-term incentive schemes. The performance conditions used in 2006 represent stretching targets designed to ensure that share incentives achieve the objective of motivating and incentivising management for good long-term performance.

EPS# growth remains substantially within the control of management and therefore continues to be an appropriate measure of the performance and underlying financial performance of the company. The same performance condition applies to both the LTIP and ExEPP.

Total shareholder return (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 re-invested 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 company's relative TSR performance is used as a performance measure for the purposes of the performance conditions set under the company's LTIP and ExEPP.

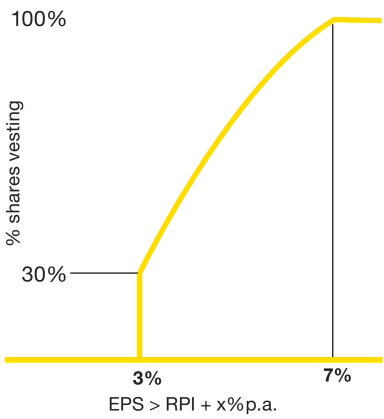
The charts below show how each half of an award could vest at the end of the relevant three-year performance period under the EPS and the TSR performance conditions.

For the performance conditions applied to the 2006 LTIP, 2006 ExEPP, 2006 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 those intangible assets initially recognised in an acquisition at fair value combination and tax on the items above, where applicable.

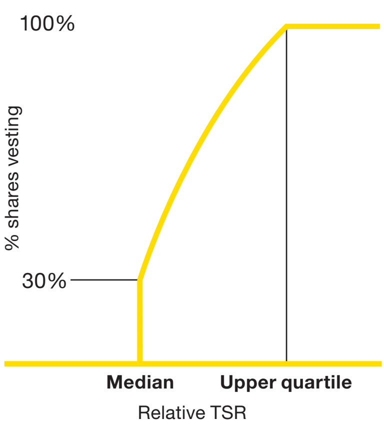
Report of the Remuneration Committee (continued)

2006 LTIP and ExEPP vesting schedule

50% of the award vests on EPS



50% of the award vests on TSR



5.5 Pensions

In the UK, LogicaCMG operates a defined contribution pension plan – the LogicaCMG Defined Contribution Pension Scheme. This is the main pension fund for UK employees and the only scheme available to new UK employees.

Executive directors based in the UK, with the exception of Martin Read and Jim McKenna, receive pension contributions of 15% of annual base salary with employee contributions set at 5% of salary. Arrangements for executive directors based in other countries reflect local practice.

In the light of the new UK pensions legislation, the company confirmed in the last annual report that where an executive wishes to change their current pension arrangements for personal tax reasons, the company will offer them an alternative that is designed to be cost-neutral to the company. A number of executives have, or are considering, the most appropriate pension arrangements in the light of the new legislation.

Martin Read receives 30% of his base salary as a pension allowance. Part of the allowance was paid into a defined contribution scheme until March 2006. The balance is currently held in an Unfunded Unapproved Retirement Benefit Scheme (UURBS), whilst the most appropriate future arrangements are finalised.

Jim McKenna elected to receive his pension allowance as cash from December 2006. The funds accumulated on his behalf in an UURBS were paid out to him at that time.

Seamus Keating's company contributions are currently held in an UURBS whilst the most appropriate future arrangements are finalised.

Didier Herrmann participates in the mandatory AGRIC and ARRCO pension arrangements applicable in France.

Crister Stjernfelt has continued to receive the same pension allowance of SEK 1,750,000 (£128,961) per annum as he received whilst CEO of WM-data.

Cor Stutterheim ceased to be an active member of CMG's Stichting Pensioenfonds (a non-contributory defined benefit pension scheme) in December 2002. No further benefits were accrued during 2006. From 1 August 2006 he has elected to receive monthly pension payments, as permitted under the rules of the scheme. Details of his entitlements and appropriate transfer values are shown in the table on page 61.

5.6 Benefits

In addition to pension, all UK-based executive directors are entitled to company life insurance at four times annual salary, permanent health cover, private medical insurance benefits, medical check-ups, car and fuel (or cash allowances in lieu), an interest free season ticket loan and personal accident insurance.

Didier Herrmann is entitled to life assurance, medical insurance, invalidity cover and participates in mandatory all-employee profit share arrangements, in line with normal arrangements in France.

Crister Stjernfelt is entitled to life assurance, long-term sickness cover, accident insurance and a company car, in line with normal arrangements in Sweden.

5.7 All-employee share schemes

The group operates three share schemes. The majority of employees globally can participate in at least one of the schemes, subject to local legal and tax constraints. Executive directors are eligible to participate in the schemes.

The TSR comparator group is shown below:

LogicaCMG comparator group for TSR

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

WM-data was originally in the comparator group.
LogicaCMG acquired WM-data during October 2006.

These companies were selected based on business mix, company size (primarily in terms of market capitalisation), geographic spread and TSR correlation with LogicaCMG.

5.7.1 Sharesave
All eligible employees may contribute up to £250 per month for a set period to purchase company shares at a price set at the time Sharesave options were granted. In the UK, this plan is approved by HM Revenue and Customs. The executive directors are eligible to participate in this plan. Although a discount of up to 20% may be offered on the share option price, no such discount was applied in 2006.

5.7.2 Employee Equity Partnership Plan
Eligible staff may invest up to £400 per annum in the company's shares. After three years, subject to continued employment with the group, retention of the shares originally purchased and achievement of a performance condition, the shares will be matched on the basis of up to one share for every share originally purchased. This is one of the few all-employee plans of this type in the UK that incorporates a performance condition.

The current performance condition, in the table below, is unchanged from the previous year.

The performance condition for awards granted in 2003 was partially met in two years of the three-year performance period, resulting in two-thirds of the matching award being realised. The performance condition for awards granted in 2004 was fully met.

The executive directors are eligible to participate in this scheme on the condition that they do not participate in the ExEPP. No executive director participated in 2006.

5.7.3 US Stock Purchase Plan
US-based employees are eligible to participate in a tax-favourable share purchase plan. They may save up to a maximum of $2,000 per annum, the savings being used to buy shares at quarterly intervals. The group contributes an additional 15% to the amount saved per employee. US-based employees are not eligible to participate in Sharesave or the Employee Equity Partnership Plan.

5.8 Executive shareholding
The company's executive share retention policy was introduced in 2005. It states that executive directors and those senior executives within the group invited to participate in the ExEPP, or receiving performance shares, are expected to acquire and retain a significant holding in LogicaCMG shares. The shareholding requirement for executive directors, and the required time-frame within which they have to achieve this, are set out in the table below.

From the date of their appointment, executives are required to invest 50% of their net annual bonus in shares until the company's ownership requirements have been met. As stated in 5.4.2, from 2006 there is a requirement that 20% of the net annual bonus must be invested in shares through the new ExEPP 2006 regardless of shareholding.

None of the executive directors are in breach of the share retention policy.

5.9 Remuneration policy changes for 2007
No major change to remuneration policy is planned for 2007.

A pension review for UK executive directors is currently being undertaken.

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

In line with the committee's policy and current market practice, the executive directors, with the exception of Crister Stjernfelt, are entitled to receive one year's notice of termination from the company. They are required to give the company a minimum of three months' notice of termination of employment. For Crister Stjernfelt, the period of notice of termination from the employer and the employee is six months.

Martin Read's service contract, effective 27 July 1993, contains a liquidated damages clause. If the company terminates his employment in breach of contract, he will receive an amount equal to one year's gross salary plus a further amount equal to 30% of his annual gross salary as compensation in respect of pensions, bonus and other benefits. No other director's service contract includes a liquidated damages clause and no such clause will be incorporated into future contracts for executive directors.

Employee Equity Partnership Plan performance condition

EPS# growth over relevant three-year period compared to growth in UK RPI	Percentage of shares that vest
Growth of 3% or more compared to growth in UK RPI	100%
Equal to growth in UK RPI	20%
Less than growth in UK RPI	Nil
Awards vest on a pro-rata basis between equalling growth in UK RPI and exceeding growth in UK RPI by 3% per annum	

See page 57 for definition.

Executive shareholding requirement

	Shareholding value^ (percentage of annual salary)	Time-frame (years)	Shareholding value^ (percentage of annual salary)	Time-frame (years)
Group Chief Executive	50%	3	100%	5
Other Executive Directors	30%	3	75%	5

^Shares are valued at their purchase price or market value at 31 December (whichever is the higher).

Report of the Remuneration Committee (continued)

Other executive directors' contracts do not contain any provision for compensation upon termination of employment beyond payment in lieu of contractual notice. The service contracts of Jim McKenna, effective 29 October 1993, and Seamus Keating, effective 1 January 2002, provide that any payment made to either of them in lieu of notice is calculated on the basis of gross salary plus an additional 12.5% as a contribution to the value of benefits. In addition, if the company makes a payment in lieu of notice, their entitlement to a company car will continue as if notice had been given to them.

The service contract of Didier Herrmann, effective 10 January 2006, provides compensation for restrictive non-competition clauses. The company will pay a monthly sum for a period of 12 months from the termination of the contract. This sum is equal to 150% of gross basic monthly salary, averaged over the previous 12 months prior to the termination of his employment.

The service contract of Crister Stjernfelt, effective 10 October 2006, provides for severance pay for 12 months in the event of termination of employment by the company. If he assumes new duties during this period, the right to remaining severance pay ceases.

6.1 Non-executive directorships

The company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience to the benefit of the company. The individual directors may normally retain fees as the posts entail personal responsibility. Martin Read and Jim McKenna both received fees in their capacity as non-executive directors of other companies, details of which can be found in the report and accounts of the relevant companies.

6.2 Former directors

Following the retirement of Ian Taylor, on 30 June 2004, the company retained his services on a consultancy basis at commercial rates, to provide material assistance to certain senior executives as part of the company's senior management succession programme. Fees for these services are shown in the table of directors' emoluments.

7. Non-executive directors

Non-executive directors are entitled only to receive fees. They are not eligible to participate in performance-related bonus plans, group employee benefit arrangements or group share schemes. They do not have service contracts with the company and are not entitled to any payments for loss of office or any unexpired term of their appointment as a non-executive director.

Cor Stutterheim's fees are determined by the Board upon the recommendation of the committee and the group chief executive. The fees of the other non-executive directors are determined by the executive directors from recommendations from Cor Stutterheim and Martin Read. As stated in the 2005 annual report the fees and fee structure for the non-executive directors were reviewed and revised effective from 1 January 2006. The Board has the power to award additional remuneration to non-executive directors for services outside the scope of their ordinary duties. No such additional payments were made during the year.

Further details on the non-executive directors can be found in the Corporate governance section on pages 47 to 53.

In addition to his appointment as non-executive director, Gérard Philippot had a fixed term consultancy agreement with the company at a value of €300,000 per annum, which expired on 3 March 2007. This agreement will not be renewed.

Noël Harwerth and Wolfhart Hauser were appointed as non-executive directors on 1 January 2007 and will be proposed for election by shareholders at the next AGM.

Angela Knight
Chairman, Remuneration Committee
29 March 2007

8. Remuneration review

Emoluments of the directors *(this information has been audited)*

	1 January to 31 December 2006						
	Salary and fees £'000	Performance-related bonus £'000	Benefits in kind £'000	**Total 2006 £'000**	Total 2005 £'000	**Pension contributions 2006 £'000**	Pension contributions 2005 £'000
Chairman and executive directors							
C J M Stutterheim	180	–	–	180	150	–	–
M P Read[1]	650	813	34	1,497	1,190	195	180
D Herrmann[2]	252	342	16	610	–	15	–
S Keating[3]	375	469	19	863	700	56	53
J A P McKenna[4]	395	538	27	960	750	100	98
C Stjernfelt[5]	51	30	1	82	–	29	–
	1,903	**2,192**	**97**	**4,192**	**2,790**	**395**	**331**
Non-executive directors							
W Dik	33	–	–	33	30	–	–
A A Knight	43	–	–	43	36	–	–
G E Loudon	35	–	–	35	32	–	–
H C-J Mamsch	83	–	–	83	75	–	–
R C Payne	43	–	–	43	36	–	–
G Philippot[6]	203	–	–	203	6	–	–
	440	**–**	**–**	**440**	**215**	**–**	**–**
Former directors							
I Taylor[7]	4	–	–	4	23	–	–
	4	**–**	**–**	**4**	**23**	**–**	**–**
Total	**2,347**	**2,192**	**97**	**4,636**	**3,028**	**395**	**331**

[1]M P Read's pension contributions to an Unfunded Unapproved Retirement Benefit Scheme (UURBS) additionally accrued a notional investment return of 5% per annum (£4,937).
[2]D Herrmann was appointed as executive director on 10 January 2006.
[3]S Keating's pension contributions to an UURBS additionally accrued a notional investment return of 5% per annum (£4,012).
[4]J A P McKenna elected to end his salary sacrifice arrangements on 30 November 2006 and to receive his full annual salary effective 1 December 2006. He receives a pension allowance in cash. Pension contributions made to an UURBS until 1 December 2006 additionally accrued a notional investment return of 5% per annum (£3,599).
[5]C Stjernfelt was appointed as executive director on 10 October 2006.
[6]G Philippot received a fee of £33,000 in respect of his appointment as non-executive director. Additionally, he received £170,000 as a payment in respect of a fixed-term agreement for consultancy services. The agreement expired on 3 March 2007.
[7]I Taylor retired as a director on 30 June 2004. Emoluments disclosed for 2006 and 2005 are a payment in respect of an agreement for consultancy services.

Pension benefit details for C J M Stutterheim *(this information has been audited)*

Transfer value of the change in accrued pension 31/12/05 to 31/12/06	**Change in accrued pension 31/12/05 to 31/12/06**	**Accrued pension at 31/12/06**	**Accrued pension at 31/12/05**	**Change in transfer value 31/12/05 to 31/12/06**	**Transfer value at 31/12/06**	**Transfer value at 31/12/05**
€	**€**	**€**	**€**	**€**	**€**	**€**
n/a	–	257,945	396,841	181,391	3,883,622	3,702,231

From 1 August 2006 C Stutterheim has elected to receive monthly pension payments at the age of 60, as permitted under the rules of the scheme.

Report of the Remuneration Committee (continued)

Interests of the directors at the year-end in the shares of the company are as follows *(this information is unaudited)*

	1 January 2006 (or date of appointment if later)		Acquired during the year	31 December 2006	
	Beneficial	Non-beneficial	Beneficial	Beneficial	Non-beneficial
C J M Stutterheim	1,209,941	–	–	1,209,941	–
M P Read	170,395	–	20,921	191,316	–
D Herrmann[1]	7,376,495	–	–	7,376,495	–
S Keating	17,683	–	45,877	63,560	–
J A P McKenna	83,615	–	22,938	106,553	–
C Stjernfelt[2]	186,923	–	–	186,923	–
W Dik	–	–	–	–	–
A A Knight	2,145	–	–	2,145	–
G E Loudon	3,717	–	–	3,717	–
H C-J Mamsch	–	–	–	–	–
R C Payne	20,526	–	–	20,526	–
G Philippot[3]	8,611,532	–	–	8,611,532	–

[1]D Herrmann's shareholding is as at the date of his appointment, 10 January 2006.
[2]C Stjernfelt's shareholding is as at the date of his appointment, 10 October 2006.
[3]Since the year end, between 12 and 16 March G Philippot sold his entire shareholding in the company.

The market price of the shares at 31 December 2006 was 186.00 pence (31 December 2005: 177.25 pence) and the range during the period 1 January to 31 December 2006 was 153 pence to 201.75 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 2006, the Logica Employee Share Ownership Plan Trust owned 6,784,267 shares. On 5 January, 19 January, 1 February, 16 February, 1 March 2007, 15 March and 29 March, the holding of the Trust reduced by 1,301, 1,577, 1,014, 1,451, 1,527, 875 and 6,965 respectively, following the exercise of options by employees. M P Read, S Keating, and J A P McKenna hold options over shares held in the trust.

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

Long Term Incentive Plan 2006 *(this information has been audited)*

Shares granted to executive directors under the new Long Term Incentive Plan 2006 are shown in the table below. The EPS and TSR performance conditions for the plan are detailed on page 57.

	At 1 January 2006 (or date of appointment if later)	Granted during the year	Released/ lapsed during the year	At 31 December 2006	Grant date	Release date
M P Read	–	583,832	–	583,832	25/05/06	25/05/09
D Herrmann[1]	–	164,055	–	164,055	25/05/06	25/05/09
S Keating	–	244,550	–	244,550	25/05/06	25/05/09
J A P McKenna	–	257,485	–	257,485	25/05/06	25/05/09
C Stjernfelt[2]	–	204,488	–	204,488	01/11/06	01/11/09

[1]Date of appointment 10 January 2006
[2]Date of appointment 10 October 2006

Unilog Management Incentive *(this information has been audited)*

	At 1 January 2006 (or date of appointment if later)	Granted during the year	Released/ lapsed during the year	Released at 31 December 2006	Available for release at 31 December 2007
D Herrmann[1]	1,100,000	–	–	550,000	550,000

[1]Date of appointment 10 January 2006. D Herrmann may receive a total award of 1,100,000 shares over a two-year period. The first tranche of shares will be released as soon as practicable after 31 December 2006, subject to the 2006 EPS performance condition being achieved. The performance condition for 2006 was fully met. The EPS performance conditions are described below.

Performance conditions for Unilog Management Incentive *(this information is unaudited)*

	EPS growth	Percentage of shares to vest
1 January 2006-	Growth in UK RPI + 7%	100%
31 December 2006	Growth in UK RPI + 3%	20%
	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%	
1 January 2006-	Growth in UK RPI + 14%	100%
31 December 2007	Growth in UK RPI + 6%	20%
	Less than growth in UK RPI + 6%	0%
	Awards may vest on a straight line basis between 100% and 20% provided average EPS growth exceeds growth in UK RPI by 6%	

Shares purchased through the Executive Equity Partnership Plan 1998 *(this information has been audited)*

The shares purchased by the executive directors through the Executive Equity Partnership Plan 1998 are shown in the table below, together with the company matching award. The shares purchased by the executive directors are included in the directors' interests table overleaf.

	Shares held at 1 January 2006	Shares acquired during the year	Shares held at 31 December 2006
M P Read	95,725	20,921	116,646
S Keating	17,683	45,877	63,560
J A P McKenna	29,869	22,938	52,807

	Award date	Performance period end	Matching shares held at 1 January 2006	Matching shares awarded during the year	Matching shares held at 31 December 2006
M P Read	8 April 2004	2007	28,158	–	28,158
	7 April 2006	2009	–	35,672	35,672
					63,830
S Keating	8 April 2004	2007	18,231	–	18,231
	7 April 2006	2009	–	78,226	78,226
					96,457
J A P McKenna	19 November 1998	2001	15,362	–	15,362
	7 April 2006	2009	–	39,116	39,116
					54,478

Awards have a seven-year exercise period following a three-year performance period.

On 8 March 2007 the directors named below purchased shares in respect of an invitation to join the Executive Equity Participation Plan (ExEPP). On the same date, an award of Matching Shares was made to the directors under the Plan. The table below details the shares acquired by the director and the Matching Shares awarded.

	Number of shares acquired	Number of matching shares awarded	Performance period end
M P Read	111,437	190,201	2010
D Herrmann	19,195	38,661	2010
S Keating	58,115	99,197	2010
J A P McKenna	58,115	99,197	2010

The performance conditions applying to ExEPP grants since 1998 are set out below:

		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 in relevant 3-year period 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 condition for the matching award granted in 2004 was fully satisfied.

Report of the Remuneration Committee (continued)

Options to subscribe for ordinary shares of the company held by directors *(this information has been audited)*

	Options held at 1 January 2006 (or date of appointment if later)	Options granted during the year	Lapsed/ cancelled during the year	Options held at 31 December 2006	Grant date	Exercise price (pence) adjusted for the rights issue[1]	Exercise dates Earliest	Exercise dates Latest
M P Read	892,474	–	–	892,474	17/09/98	329.0834	17/09/01	16/09/08
	297,491	–	–	297,491	14/09/99	698.0919	14/09/02	13/09/09
	111,925	–	–	111,925	17/10/00	1626.0760	17/10/03	16/10/10
	1,844	–	–	1,844	17/10/00	1626.0760	17/10/03	16/10/10
	170,655	–	–	170,655	13/09/01	598.5717	13/09/04	12/09/11
	739,505	–	–	739,505	24/09/02	107.2331	24/09/05	23/09/12
	682,620	–	–	682,620	23/09/03	238.1981	23/09/06	22/09/13
	3,105	–	–	3,105	24/09/03	238.1981	01/12/06	31/05/07
	802	–	–	802	30/03/04	234.6823	01/05/07	31/10/07
	682,620	–	–	682,620	07/04/05	159.0917	07/04/08	06/04/12
	3,583,041	**–**	**–**	**3,583,041**				
S Keating	23,797	–	–	23,797	14/09/99	689.0919	14/09/02	13/09/09
	17,065	–	–	17,065	17/10/00	1626.0760	17/10/03	16/10/10
	22,754	–	–	22,754	13/09/01	598.5717	13/09/04	12/09/11
	341,310	–	–	341,310	24/09/02	107.2331	24/09/05	23/09/12
	341,310	–	–	341,310	23/09/03	238.1981	23/09/06	22/09/13
	341,310	–	–	341,310	07/04/05	159.0917	07/04/08	06/04/12
	1,087,546	**–**	**–**	**1,087,546**				
J A P McKenna	118,996	–	–	118,996	14/10/97	155.9700	14/10/00	13/10/07
	118,996	–	–	118,996	17/09/98	329.0834	17/09/01	16/09/08
	148,745	–	–	148,745	14/09/99	689.0919	14/09/02	13/09/09
	66,417	–	–	66,417	17/10/00	1626.0760	17/10/03	16/10/10
	1,844	–	–	1,844	17/10/00	1626.0760	17/10/03	16/10/10
	113,770	–	–	113,770	13/09/01	598.5717	13/09/04	12/09/11
	341,310	–	–	341,310	24/09/02	107.2331	24/09/05	23/09/12
	341,310	–	–	341,310	23/09/03	238.1981	23/09/06	22/09/13
	341,310	–	–	341,310	07/04/05	159.0917	07/04/08	06/04/12
	–	4,850	–	4,850	07/04/06	192.7500	01/05/09	01/11/09
	1,592,698	**4,850**	**–**	**1,597,548**				
D Herrmann[2]	–	–	–	–				
C Stjernfelt[3]	–	–	–	–				
Total	**6,263,285**	**4,850**	**–**	**6,268,135**				

[1]Options and awards granted pursuant to the LogicaCMG 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 have been approved by the relevant tax authorities in the UK and the company's auditors.
[2]Date of appointment 10 January 2006.
[3]Date of appointment 10 October 2006.

The performance conditions for 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, March and September 2004 and April, May and September 2005	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 straight line basis between 100% and 20% provided 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 and March 2004 have been met.

Unilog options exercisable under a liquidity agreement for D Herrmann

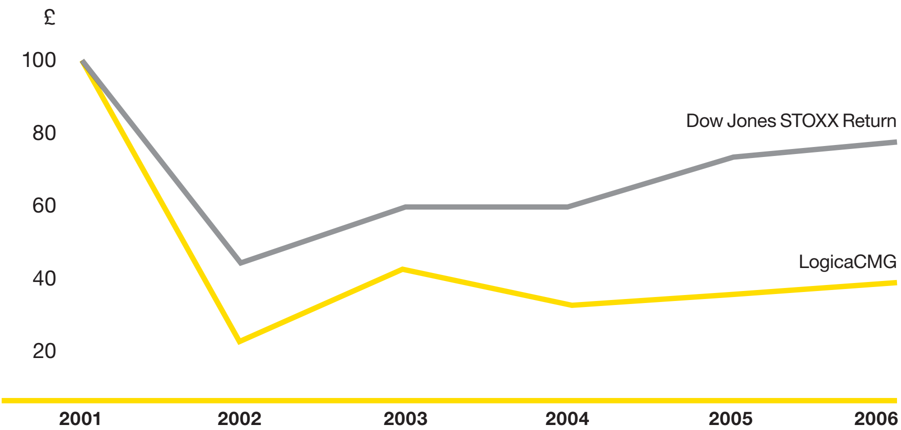
	Options held at 1 January 2006 (or date of appointment if later)	Options granted during the year	Lapsed/ cancelled during the year	Options held at 31 December 2006	Grant date	Exercise price (€)	Exercise dates Earliest	Exercise dates Latest
D Herrmann[1]	4,700[(a)]	–	(4,700)	–	17/01/01	68.0000	01/02/06	30/04/06
	2,400[(b)]	–	–	2,400	13/01/04	46.0000	01/02/09	30/04/09
	7,764[(c)]	–	–	7,764	01/06/05	2.2500	29/06/10	29/06/12
	14,864	**–**	**(4,700)**	**10,164**				

[1]Date of appointment 10 January 2006. The above table shows Unilog options held by D Herrmann. As part of the Unilog acquisition a share transfer agreement ('Liquidity Agreement') was put in place with option holders allowing, following exercise, the resulting Unilog shares to be transferred to LogicaCMG for either new LogicaCMG shares or the cash equivalent.

[(a)]Unilog options: equivalent number of LogicaCMG shares if exercised under a Liquidity Agreement = 150,259.
[(b)]Unilog options: equivalent number of LogicaCMG shares if exercised under a Liquidity Agreement = 76,728.
[(c)]Unilog BSAR warrants: equivalent number of LogicaCMG shares if exercised under a Liquidity Agreement = 248,215.

No directors exercised share options during the period 1 January to 31 December 2006.

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.

Governance

Independent auditors' report to the members of LogicaCMG plc

We have audited the group financial statements of LogicCMG plc for the year ended 31 December 2006, which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense 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 2006 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 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 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, 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 statement reflects the company's compliance with the nine provisions of the Combined Code 2003 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 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 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 2006 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
29 March 2007

Consolidated financial statements

Consolidated income statement

For the year ended 31 December 2006

	Note	2006 £'m	Restated 2005 £'m
Continuing operations:			
Revenue	6	**2,665.2**	1,834.1
Net operating costs	7	**(2,509.4)**	(1,714.0)
Operating profit		**155.8**	120.1
Analysed as:			
Operating profit before exceptional items		**179.7**	120.7
Exceptional items	8	**(23.9)**	(0.6)
Operating profit		**155.8**	120.1
Finance costs	11	**(35.9)**	(24.2)
Finance income	12	**9.2**	7.5
Share of post-tax profits from associates		**0.3**	1.4
Profit before tax	13	**129.4**	104.8
Taxation	14	**(40.3)**	(36.0)
Profit for the year from continuing operations		**89.1**	68.8
Discontinued operation:			
Result from discontinued operation	15	**–**	–
Net profit for the year		**89.1**	68.8
Attributable to:			
Equity holders of the parent		**82.0**	65.8
Minority interests		**7.1**	3.0
		89.1	68.8

		2006 p/share	2005 p/share
Earnings per share from all operations			
– Basic	17	**6.7**	7.3
– Diluted	17	**6.6**	7.3

Consolidated statement of recognised income and expense

For the year ended 31 December 2006

	2006 £'m	Restated 2005 £'m
Exchange differences on translation of foreign operations	**(4.1)**	6.4
Cash flow hedges:		
– losses on cash flow hedges taken to equity	**–**	(1.2)
– transferred to carrying amount of investment in associate	**–**	1.2
– transferred to income statement on settlement	**(2.0)**	–
Actuarial gains on defined benefit plans	**17.5**	12.0
Tax on items taken directly to equity	**(3.9)**	(4.2)
Net income recognised directly in equity	**7.5**	14.2
Profit for the year	**89.1**	68.8
Total recognised income and expense for the year	**96.6**	83.0
Attributable to:		
Equity holders of the parent	**89.4**	80.7
Minority interests	**7.2**	2.3
	96.6	83.0
Effects of changes in accounting policies		
Attributable to equity holders of the parent – increase in retained earnings	**–**	0.8

Details of dividends paid and proposed are provided in note 16.

Consolidated balance sheet

31 December 2006

	Note	2006 £'m	Restated 2005 £'m
Non-current assets			
Goodwill	18	**1,552.1**	385.4
Other intangible assets	19	**415.1**	25.3
Property, plant and equipment	20	**136.6**	102.5
Investments in associates	21	**6.0**	304.6
Financial assets	22	**10.1**	9.2
Retirement benefit assets	38	**18.7**	15.3
Deferred tax assets	29	**50.6**	36.0
		2,189.2	878.3
Current assets			
Inventories	23	**2.9**	2.4
Trade and other receivables	24	**1,070.2**	648.2
Current tax assets		**31.2**	21.2
Cash and cash equivalents	35	**177.3**	245.3
		1,281.6	917.1
Current liabilities			
Convertible debt	26	**(202.4)**	(205.0)
Other borrowings	26	**(33.1)**	(18.5)
Trade and other payables	25	**(886.4)**	(453.1)
Current tax liabilities		**(32.3)**	(14.2)
Provisions	28	**(20.8)**	(6.7)
		(1,175.0)	(697.5)
Net current assets		**106.6**	219.6
Total assets less current liabilities		**2,295.8**	1,097.9
Non-current liabilities			
Borrowings	26	**(498.9)**	(117.9)
Retirement benefit obligations	38	**(64.1)**	(77.9)
Deferred tax liabilities	29	**(164.4)**	(56.3)
Provisions	28	**(13.2)**	(8.3)
Other non-current liabilities		**(0.8)**	(1.0)
		(741.4)	(261.4)
Net assets		**1,554.4**	836.5
Equity			
Share capital	30	**153.6**	114.6
Share premium account	31	**1,097.0**	1,084.8
Other reserves	32	**274.4**	(380.1)
Total shareholders' equity		**1,525.0**	819.3
Minority interests	33	**29.4**	17.2
Total equity		**1,554.4**	836.5

The consolidated financial statements on pages 67 to 108 were approved by the Board of directors on 29 March 2007 and were signed on its behalf by:

M P Read
S Keating
Directors

29 March 2007

Consolidated cash flow statement

For the year ended 31 December 2006

	Note	2006 £'m	2005 £'m
Cash flows from operating activities			
Net cash inflow from trading operations		**250.4**	180.8
Cash outflow related to property reorganisation expense		**–**	(0.8)
Cash outflow related to restructuring and integration activities		**(33.6)**	(13.0)
Cash generated from operations	34	**216.8**	167.0
Finance costs paid		**(27.9)**	(20.2)
Income tax paid		**(38.5)**	(29.9)
Net cash inflow from operating activities		**150.4**	116.9
Cash flows from investing activities			
Finance income received		**5.6**	3.5
Proceeds on disposal of property, plant and equipment		**2.3**	10.6
Purchases of property, plant and equipment		**(31.8)**	(30.2)
Expenditure on intangible assets		**(19.6)**	(7.1)
Acquisition of subsidiaries, net of cash acquired		**(380.9)**	(37.2)
Acquisition of investment in an associate		**–**	(266.8)
Disposal of subsidiaries		**1.9**	–
Disposal of business		**–**	(1.1)
Net cash outflow from investing activities		**(422.5)**	(328.3)
Cash flows from financing activities			
Net (outflow)/proceeds from issue of new shares		**(2.0)**	391.2
Proceeds from sale of nil paid rights/treasury shares by ESOP trusts		**–**	1.9
Purchase of treasury shares by ESOP trusts		**–**	(1.9)
Proceeds from bank borrowings		**506.6**	242.8
Repayments of bank borrowings		**(225.0)**	(225.6)
Repayments of finance lease principal		**(2.1)**	(3.7)
Repayments of borrowings assumed in acquisitions		**(3.8)**	(11.3)
Proceeds from other borrowings		**0.4**	–
Repayments of other borrowings		**(0.4)**	(0.5)
Dividends paid to the company's shareholders		**(61.1)**	(43.5)
Dividends paid to minority interests		**(1.8)**	(0.9)
Net cash inflow from financing activities		**210.8**	348.5
Net (decrease)/increase in cash and cash equivalents		**(61.3)**	137.1
Cash and cash equivalents at the beginning of the year	35	**245.3**	106.6
Net (decrease)/increase in cash and cash equivalents		**(61.3)**	137.1
Effect of foreign exchange rates		**(6.7)**	1.6
Cash and cash equivalents at the end of the year	35	**177.3**	245.3

Notes to the consolidated financial statements

1. General information

LogicaCMG is a major international force in IT and business services. It employs around 40,000 people across 41 countries. LogicaCMG's focus is on enabling its customers to build and maintain leadership positions using LogicaCMG's deep industry knowledge and its track record for successful delivery. The company provides business consulting, systems integration and IT and business process outsourcing across diverse markets including Telecoms and Media, Financial Services, Energy and Utilities, Industry, Distribution and Transport and the Public Sector. Headquartered in Europe, LogicaCMG is listed on both the London Stock Exchange and Euronext (Amsterdam) (LSE: LOG; Euronext: LOG) and traded on the Xternal List of the Nordic Exchange in Stockholm. More information is available at www.logicacmg.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.

2. Accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') at 31 December 2006, and those parts of the Companies Act 1985 ('the Act') that remain applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared 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. Goodwill previously written off directly to reserves under UK GAAP prior to 1 January 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates.

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.

2. Accounting policies (continued)

The useful economic lives of the other intangible assets are as follows:

Brand names	3-5 years	Customer contracts and relationships	1-10 years
Purchased computer software	3 years	Software products recognised on acquisition	3-7 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 assets

Goodwill is allocated to cash-generating units for the purposes 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

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.

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.

Trade and other receivables

Trade and other receivables are stated at amounts receivable less any provision for recoverability. 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.

Notes to the consolidated financial statements (continued)

2. Accounting policies (continued)

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 re-measured 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 rates and exchange rates. The gain or loss on re-measurement 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 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.

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.

Foreign currencies

The presentation currency of the group is pounds sterling. The group also presents primary statements in euros, see pages 121 to 123.

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.

2. Accounting policies (continued)

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 borrowings 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 currency for the group is the euro. The relevant exchange rates to pounds sterling were:

	2006		2005	
	Average	**Closing**	Average	Closing
£1 = €	**1.47**	**1.48**	1.46	1.46

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 necessary 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.

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 of 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 usually deemed to be capable of reliable estimation at the earlier of six months from contract commencement and the date at which 50% of the total estimated costs of professional services have been incurred. 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 usually determined by reference to the cost of professional services incurred to date as a proportion of the total estimated cost of professional services. Where a contract contains multiple elements, the individual elements are accounted for separately where appropriate.

Provision is made for all foreseeable future losses.

Segment reporting

At 31 December 2006, LogicaCMG was organised into two business segments: IT services and Telecoms Products. These two business segments are the group's primary reporting format for segment information as they represent the dominant source and nature of the group's risks and returns. The group's secondary reporting format is by geographical area.

Inter-segment sales are charged at arm's length prices. Segment revenue for secondary reporting is allocated based on the country in which the customer is located. Segment assets include all intangible assets, property, plant and equipment, inventories, trade and other receivables, and cash and cash equivalents but exclude tax assets. 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 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 the operating 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.

Notes to the consolidated financial statements (continued)

2. Accounting policies (continued)

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.

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 schemes, 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.

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 2005, except as described in the first paragraph below:

The following standards, amendments to and interpretations of published standards are mandatory for accounting periods beginning on or after 1 January 2006 but had no material impact on the consolidated financial statements:

- IFRIC 4 'Determining whether an arrangement contains a lease'.
- Amendment to IAS 21 'The Effects of Changes in Foreign Exchange Rates' – Net Investment in a Foreign Operation.
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' – Cash flow hedge accounting of forecast intra-group transactions.

The following standards, amendments to and interpretations of published standards are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to and had no effect on the group's operations:

- IFRS 6 'Exploration for and Evaluation of Mineral Resources'.
- IFRIC 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'.
- IFRIC 6 'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'.
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts'.
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

3. Adoption of new and revised International Financial Reporting Standards (continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRS 7 'Financial Instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. The main impact on the group will be additional disclosures.
- IFRS 8 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. The group is currently considering adopting the standard early. 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.
- IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies', effective for annual periods beginning on or after 1 March 2006. No significant impact on the consolidated financial statements is expected.
- IFRIC 8 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. No significant impact on the consolidated financial statements is expected.
- IFRIC 9 'Reassessment of embedded derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the group has already assessed whether embedded derivatives should be separated using principles consistent with IFRIC 9.
- Amendment to IAS 1 'Presentation of Financial Statements' – Capital disclosures, effective for annual periods beginning on or after 1 January 2007. The main impact on the group will be additional disclosures.

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.

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.

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 24.

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 the cash-generating units to which goodwill is attributed are disclosed in note 18.

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 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.

Notes to the consolidated financial statements (continued)

5. Restatement of balance sheet at 31 December 2005 and income statement for the year ended 31 December 2005

Following the provisions of IFRS 3 'Business Combinations' which permit the group 12 months to finalise the fair values of the net assets acquired, the provisional fair values for the Edinfor acquisition (acquired on 20 April 2005) were finalised. As a result, the group's share of the fair value of net assets acquired decreased by £2.0 million and the goodwill increased by the same amount, compared to the amounts previously reported at 31 December 2005. The decrease of £2.0 million is analysed as follows:

	£'m
Investments in associates	(0.1)
Trade and other receivables	(1.0)
Trade and other payables	(2.3)
	(3.4)
Minority interests	1.4
Decrease in share of net assets acquired	(2.0)

During 2005, the group purchased an associate interest in Unilog S.A. and its subsidiaries ('Unilog'). IAS 28 'Investments in Associates' requires that the group accounts for its share of the amortisation of the identifiable intangible assets of an associate based on their fair value at the date of the initial purchase.

Due to the short time period between the date of purchase of the associate interest in Unilog and the date of approval of the 2005 consolidated financial statements, the group's share of the post-tax profit of Unilog did not contain an amortisation charge for certain intangible assets, including brand names, customer contracts/relationships and some software products. The fair values of these intangible assets were subsequently finalised in 2006 and a restatement of the share of the post-tax profit of Unilog for the period 25 October to 31 December 2005 has been made. The post-tax effect of the amortisation charge was to reduce the share of the post-tax profits from associates in the income statement by £0.8 million and to reduce the carrying value of investment in associates in the balance sheet by the same amount.

Basic and diluted earnings per share decreased from 7.4 pence per share to 7.3 pence per share as a result of the restatements above. Adjusted earnings per share and adjusted diluted earnings per share did not require restatement.

The effect of these restatements on shareholders' equity and total equity as at 31 December 2005 was as follows:

	£'m
Shareholders' equity at 31 December 2005	820.1
Decrease in share of post-tax profit from associates	(0.8)
Total shareholders' equity	819.3
Minority interests at 31 December 2005	18.6
Decrease in minority interest due to finalisation of fair values of Edinfor	(1.4)
Total equity	836.5

6. Segment information

At 31 December 2006, LogicaCMG was organised into two business segments: IT services and Telecoms Products. These two business 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.

Primary basis – business segments

Segment revenue and profit after tax under the primary reporting format are disclosed in the table below:

	2006		
	IT services £'m	**Telecoms Products £'m**	**Total continuing operations £'m**
Revenue	**2,420.7**	**244.5**	**2,665.2**
Segment operating profit	**141.9**	**13.9**	**155.8**
Analysed as:			
Operating profit before exceptional items	**165.8**	**13.9**	**179.7**
Exceptional items	**(23.9)**	**–**	**(23.9)**
Operating profit	**141.9**	**13.9**	**155.8**
Finance costs			**(35.9)**
Finance income			**9.2**
Share of post-tax profits from associates			**0.3**
Profit before tax			**129.4**
Taxation			**(40.3)**
Profit after tax			**89.1**

6. Segment information (continued)

	2005 Restated		
	IT services £'m	Telecoms Products £'m	Total continuing operations £'m
Revenue	1,579.4	254.7	1,834.1
Segment operating profit	107.3	12.8	120.1
Analysed as:			
Operating profit before exceptional items	106.8	13.9	120.7
Exceptional items	0.5	(1.1)	(0.6)
Operating profit	107.3	12.8	120.1
Finance costs			(24.2)
Finance income			7.5
Share of post-tax profits from associates			1.4
Profit before tax			104.8
Taxation			(36.0)
Profit after tax			68.8

The share of post-tax profits from associates in the years ended 31 December 2006 and 2005 was attributable to the IT services business segment.

Other segment items included in the income statement and capital expenditure for the year were as follows:

	2006		
	IT services £'m	**Telecoms Products £'m**	**Total continuing operations £'m**
Capital expenditure	**47.6**	**6.1**	**53.7**
Depreciation	**29.2**	**3.5**	**32.7**
Amortisation	**44.1**	**1.9**	**46.0**
Other non-cash expenses	**9.3**	**0.9**	**10.2**

	2005		
	IT services £'m	Telecoms Products £'m	Total continuing operations £'m
Capital expenditure	33.8	3.9	37.7
Depreciation	23.5	6.9	30.4
Amortisation	3.7	2.2	5.9
Other non-cash expenses	5.5	0.8	6.3

The segment assets and liabilities were as follows:

	2006			
	IT services £'m	**Telecoms Products £'m**	**Unallocated £'m**	**Group (all operations) £'m**
Segment assets	**3,203.9**	**179.0**	**–**	**3,382.9**
Investments in associates	**6.0**	**–**	**–**	**6.0**
Unallocated assets	**–**	**–**	**81.9**	**81.9**
Total assets	**3,209.9**	**179.0**	**81.9**	**3,470.8**
Segment liabilities	**(916.7)**	**(68.1)**	**–**	**(984.8)**
Unallocated liabilities	**–**	**–**	**(931.6)**	**(931.6)**
Total liabilities	**(916.7)**	**(68.1)**	**(931.6)**	**(1,916.4)**

Notes to the consolidated financial statements (continued)

6. Segment information (continued)

	2005 Restated			
	IT services £'m	Telecoms Products £'m	Unallocated £'m	Group operations) £'m
Segment assets	1,208.6	224.9	–	1,433.5
Investments in associates	304.7	–	–	304.7
Unallocated assets	–	–	57.2	57.2
Total assets	1,513.3	224.9	57.2	1,795.4
Segment liabilities	(458.0)	(89.0)	–	(547.0)
Unallocated liabilities	–	–	(411.9)	(411.9)
Total liabilities	(458.0)	(89.0)	(411.9)	(958.9)

The group manages the IT services business segment on a geographic basis. Additional voluntary disclosures, not required under IFRS, are provided below for the revenue and operating result before exceptional items of the geographic sub-divisions within the IT services business segment.

	Revenue		**Operating profit/(loss) before exceptional items**	
	2006 £'m	2005 £'m	**2006 £'m**	2005 £'m
United Kingdom	**718.4**	712.0	**77.8**	80.4
Nordics	**190.5**	5.5	**5.9**	(1.4)
France	**560.0**	116.7	**24.2**	(4.9)
Netherlands	**447.6**	409.6	**44.2**	37.9
Germany	**168.6**	78.8	**(4.0)**	(11.8)
International	**335.6**	256.8	**17.7**	6.6
	2,420.7	1,579.4	**165.8**	106.8

Following the acquisition of WM-data in 2006 (see note 36), the tables above include a new Nordics category representing the group's business in the Nordic countries. During 2005, the group's business in the Nordic countries was presented within a Rest of Europe category. This has resulted in revenue of £5.5 million and an operating loss of £1.4 million being reclassified to the new Nordics category from the Rest of Europe category.

In addition, the comparative information in the tables above has been amended so that the new International category includes the previously reported Iberia, Rest of Europe and Rest of World categories, with the exception described above.

Secondary format – geographical segments
The following table provides an analysis of the group's revenues by geographical market based on the location of the customer rather than the country of origin of the goods and/or services.

	2006 £'m	2005 £'m
United Kingdom	**733.3**	689.5
Nordics	**188.1**	10.2
France	**555.4**	151.9
Netherlands	**456.3**	414.8
Germany	**173.7**	94.0
International	**558.4**	473.7
Continuing operations	**2,665.2**	1,834.1
Discontinued operation	**–**	1.8
	2,665.2	1,835.9

Following the acquisition of WM-data in 2006, the tables above include a new Nordics category representing the group's business in the Nordic countries. During 2005, the group's business in the Nordic countries was presented within a Rest of Europe category. This has resulted in revenue of £10.2 million being reclassified to the new Nordics category from the Rest of Europe category for the year ended 31 December 2005.

In addition, the comparative information in the tables above has been amended so that the new International category includes the previously reported Iberia, Rest of Europe and Rest of World categories, with the exception described above.

For the group's discontinued operation for the year ended 31 December 2005, £1.8 million of revenue was attributable to the International category.

6. Segment information (continued)

The following table provides an analysis of segment assets and capital expenditure by geographical location of assets for all operations:

	Segment assets		Capital expenditure	
	2006 £'m	Restated 2005 £'m	**2006 £'m**	2005 £'m
United Kingdom	**524.7**	543.1	**10.2**	18.5
Nordics	**1,217.4**	2.9	**5.8**	–
France	**790.4**	43.1	**5.7**	0.2
Netherlands	**220.7**	240.4	**4.5**	4.8
Germany	**177.9**	101.4	**5.8**	1.3
International	**451.8**	502.6	**21.7**	12.9
	3,382.9	1,433.5	**53.7**	37.7

Following the acquisition of WM-data in 2006, the tables above include a new Nordics category representing the group's business in the Nordic countries. During 2005, the group's business in the Nordic countries was presented within a Rest of Europe category. This has resulted in segments assets of £2.9 million and capital expenditure of £nil being reclassified to the new Nordics category from the Rest of Europe category for the year ended 31 December 2005.

In addition, the comparative information in the tables above has been amended so that the new International category includes the previously reported Iberia, Rest of Europe and Rest of World categories, with the exception described above.

Analysis of revenue by category

	2006 £'m	2005 £'m
Continuing operations:		
Sales of goods	**254.5**	290.4
Revenues from services	**2,410.7**	1,543.7
	2,665.2	1,834.1
Discontinued operation:		
Revenues from services	**–**	1.8
	2,665.2	1,835.9

Revenue from continuing operations above included £1,475.1 million which related to contracts accounted for under the percentage-of-completion method (2005: £1,111.9 million). All revenues from the discontinued operation related to contracts accounted for under the percentage-of-completion method.

7. Net operating costs

	2006 £'m	2005 £'m
Materials and other external charges	**778.1**	602.4
Employee benefits expense	**1,373.6**	902.1
Depreciation	**32.7**	30.4
Amortisation	**46.0**	5.9
Restructuring and integration costs	**32.9**	–
Reduction in retirement benefit obligation due to harmonisation of plan rules	**(9.0)**	–
Property reorganisation expense	**–**	7.1
Profit on sale and leaseback	**–**	(6.5)
Other operating expenses	**255.1**	172.6
	2,509.4	1,714.0

Notes to the consolidated financial statements (continued)

8. Exceptional items

The exceptional items recognised within operating profit were as follows:

	2006 £'m	2005 £'m
Restructuring and integration costs	**(32.9)**	–
Reduction in retirement benefit obligation due to harmonisation of plan rules	**9.0**	–
Profit on property sale and leaseback	**–**	6.5
Property reorganisation expense	**–**	(7.1)
	(23.9)	(0.6)

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 following the change of US headquarters after the Worksuite acquisition. The restructuring comprised a reduction in headcount, vacated property and other measures to reduce the cost base.

During the year, the group 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 has been recognised in full as an exceptional item.

In 2005, the group disposed of two long leasehold office buildings in the United Kingdom for net proceeds of £8.3 million, simultaneously entering into an operating leaseback, generating a profit on disposal of £6.5 million. The United Kingdom and Telecoms Products businesses incurred an expense for vacated property, early lease terminations and related transactions costs of £7.1 million for property reorganisation activities conducted in the second half of 2005.

9. 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 IFRS 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, IFRS measures of profit.

	2006 £'m	2005 £'m
Operating profit	**155.8**	120.1
Exceptional items	**23.9**	0.6
Amortisation of intangible assets initially recognised on acquisition	**37.6**	1.0
Adjusted operating profit	**217.3**	121.7

10. Employees

	Year end		Average	
	2006 Number	2005 Number	**2006 Number**	2005 Number
United Kingdom	**6,073**	5,951	**6,083**	6,079
Nordics	**10,076**	60	**2,567**	69
France	**8,563**	1,504	**8,301**	1,523
Netherlands	**5,829**	5,719	**5,784**	5,776
Germany	**2,059**	1,185	**2,168**	1,139
International	**6,189**	5,315	**5,848**	4,336
IT services	**38,789**	19,734	**30,751**	18,922
Telecoms Products	**1,694**	1,606	**1,674**	1,657
	40,483	21,340	**32,425**	20,579

Following the acquisition of WM-data in 2006, the tables above include a new Nordics category representing the group's business in the Nordic countries. During 2005, the group's business in the Nordic countries was presented within a Rest of Europe category. This has resulted in 60 employees at 31 December 2005 and an average of 69 employees during 2005 being reclassified to the new Nordics category from the Rest of Europe category.

In addition, the comparative information in the tables above has been amended so that the new International category includes the previously reported Iberia, Rest of Europe and Rest of World categories, with the exception described above.

The employee benefits expense for the year amounted to:

	2006 £'m	2005 £'m
Salaries and short-term employee benefits	**1,082.1**	737.4
Social security costs	**207.9**	111.8
Pension costs (note 38)	**73.4**	46.6
Share-based payments (note 37)	**10.2**	6.3
	1,373.6	902.1

Employee benefit expense of £19.8 million (2005: £nil) has not been included in the table above but was included within the £32.9 million (2005: £nil) charge for restructuring and integration costs in note 8 above. The £9.0 million gain (2005: £nil) reported in exceptional items relating to the retirement benefit obligation (see note 8), was not included in the £73.4 million of pension costs in the table above (2005: £nil).

11. Finance costs

	2006 £'m	2005 £'m
Finance leases	**0.3**	0.5
Bank loans and overdrafts	**23.5**	14.3
Convertible bonds	**6.2**	6.8
Retirement benefit schemes	**0.5**	1.0
Financing fair value remeasurements	**2.9**	–
Other	**2.5**	1.6
	35.9	24.2

12. Finance income

	2006 £'m	2005 £'m
Bank interest	**2.4**	3.6
Unwinding of discount on trade receivables	**3.6**	3.5
Other	**3.2**	0.4
	9.2	7.5

13. Profit before tax

The following items have been included in arriving at profit before tax:

	2006 £'m	2005 £'m
Loss/(profit) on disposal of non-current assets and subsidiaries	**1.0**	(6.4)
Research and development expenditure	**28.9**	25.5
Trade receivables impairment	**1.1**	1.4
Exchange losses/(gains)	**0.4**	(5.7)

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 (2005: £1.9 million). During the year ended 31 December 2006, £0.5 million (2005: £1.7 million) was credited in arriving at profit before tax.

During 2006 the group received £0.5 million (2005: £0.3 million) in cash from the European Social Fund to aid with creating new employment in the Netherlands operation. During the year ended 31 December 2006, £1.7 million (2005: £1.1 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 £0.3 million during the year (2005: £0.1 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:

	2006 £'m	2005 £'m
Audit services		
Fees payable to the company's auditor for the audit of the parent company and consolidated financial statements	**0.9**	0.6
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**	1.3
– other services pursuant to such legislation	**1.5**	2.1
– tax services	**0.5**	0.7
– all other services	**0.1**	0.6
Total auditors' remuneration	**4.7**	5.3

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. For the year ended 31 December 2005, fees of £1.7 million were incurred in connection with the acquisition of Unilog and the related rights issue and were not charged to the income statement but comprised part of the acquisition costs of Unilog. Fees for all other services of £0.6 million for the year ended 31 December 2005 related principally to work carried out on the restatement of financial information under IFRS.

Notes to the consolidated financial statements (continued)

14. Taxation

	2006 **£'m**	2005 £'m
Current tax:		
UK corporation tax	**21.2**	14.8
Overseas tax	**31.6**	24.6
	52.8	39.4
Deferred tax:		
UK corporation tax	**2.4**	(2.3)
Overseas tax	**(14.9)**	(1.1)
	(12.5)	(3.4)
Tax charge from continuing operations	**40.3**	36.0

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 28.5% (2005: 34.9%), of which £23.6 million (2005: £12.5 million) related to the United Kingdom. The effective tax rate for 2006 is lower than in 2005 primarily as the result of agreements reached with certain tax authorities in respect of prior years.

The effective tax rate on exceptional items was 7.1% (2005: 50.0%) and the effective tax rate on amortisation of intangible assets initially recognised on acquisition was 32.7% (2005: 30.0%).

The tax charge from continuing operations is higher than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below.

	2006 **£'m**	Restated 2005 £'m
Profit before tax	**129.4**	104.8
Less: share of post-tax profits from associates	**(0.3)**	(1.4)
Profit before tax excluding share of post-tax profits from associates	**129.1**	103.4
Tax at the UK corporation tax rate of 30% (2005: 30%)	**38.7**	31.0
Adjustments in respect of previous years	**(7.3)**	(0.3)
Adjustment for foreign tax rates	**3.6**	5.1
Tax loss utilisation	**(6.3)**	(4.1)
Expenses/(income) not taxable/deductible for tax purposes	**0.6**	(5.2)
Deferred tax assets not recognised	**11.0**	9.5
Tax charge from continuing operations	**40.3**	36.0

In addition to the amounts charged to the income statement, a deferred tax charge of £4.5 million (2005: £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 (2005: £nil) and a deferred tax charge of £0.4 million (2005: credit of £0.3 million) relating to share-based payment arrangements were recognised directly in equity.

The current tax related to exceptional items in year ended 31 December 2006 was a tax credit of £1.7 million (2005: credit of £0.3 million).

15. Discontinued operation and non-current assets held for sale

At 31 December 2004, the EPPIX billing platform business was classified as held for sale pending disposal of the business in early 2005. The disposal subsequently completed on 15 March 2005, on which date the control of the business passed to the acquirer. This discontinued operation was attributable to the Telecoms Products business segment.

The results of the discontinued operation were as follows:

	2005 £'m
Revenue	1.8
Expenses	(1.8)
Result before and after tax	–

There were no assets and liabilities held for sale at 31 December 2006 or 31 December 2005.

16. Dividends

The directors are proposing a final dividend in respect of the year ended 31 December 2006 of 3.40 pence per share, which would reduce shareholders' funds by approximately £51.7 million. The proposed dividend is subject to approval at the annual general meeting on 24 May 2007 and has not been recognised as a liability in these financial statements. The final dividend will be paid on 25 May 2007.

The amounts recognised as distributions to equity holders were as follows:

	2006 p/share	2005 p/share	**2006 £'m**	2005 £'m
Interim dividend, relating to 2006/2005	**2.20**	2.11	**24.9**	17.7
Final dividend, relating to 2005/2004	**3.20**	3.08	**36.2**	25.8
	5.40	5.19	**61.1**	43.5

Dividends payable to employee share ownership trusts are excluded from the amounts recognised as distributions in the table above.

17. Earnings per share

	2006 Earnings £'m	**2006 Weighted average number of shares million**	**2006 Earnings per share pence**
Earnings per share from all 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**
Adjusted earnings per share			
Earnings attributable to ordinary shareholders	**82.0**	**1,215.6**	**6.7**
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**
Adjusted basic EPS	**129.6**	**1,215.6**	**10.7**
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)**
Adjusted diluted EPS	**133.8**	**1,298.8**	**10.3**

Notes to the consolidated financial statements (continued)

17. Earnings per share (continued)

	2005 Restated		
	Earnings £'m	Weighted average number of shares million	Earnings per share pence
Earnings per share from all operations			
Earnings attributable to ordinary shareholders	65.8	898.7	7.3
Basic EPS	65.8	898.7	7.3
Effect of share options and share awards	–	4.9	–
Diluted EPS	65.8	903.6	7.3
Adjusted earnings per share	65.8	898.7	7.3
Earnings attributable to ordinary shareholders			
Add back:			
Exceptional items, net of tax	0.3	–	–
Mark-to-market loss on convertible bonds designated at fair value through profit or loss, net of tax	0.6	–	0.1
Amortisation of intangible assets initially recognised on acquisition, net of tax	0.7	–	0.1
Adjusted basic EPS	67.4	898.7	7.5
Effect of share options and share awards	–	4.9	–
Effect of convertible bonds, excluding mark-to-market loss, net of tax	4.2	64.6	(0.1)
Adjusted diluted EPS	71.6	968.2	7.4

Earnings per share from continuing operations for the year ended 31 December 2006 and 2005 was the same as earnings per share from all operations.

On 13 October 2006 and 24 October 2006, the company issued 337,503,074 and 40,345,558 shares respectively to acquire a 95.33% interest in WM-data. On the same dates, the company issued 8,318,096 and 697,713 shares to acquire a 96.48% holding in WM-data convertible debentures.

In 2005, the group announced a rights issue to part-fund the proposed acquisition of Unilog and 375,495,147 new ordinary shares of 10 pence each were issued at 107 pence per share on the basis of one new ordinary share for every two existing ordinary shares held. The weighted average number of shares for the year ended 31 December 2005 has been adjusted for the bonus element within the rights issue.

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 for the year ended 31 December 2006 and 2005 as they were anti-dilutive; however, the convertible bonds are dilutive for the purposes of calculating adjusted diluted earnings per share for the year ended 31 December 2006 and 31 December 2005.

The impact of the charge for share-based payments was to reduce adjusted basic earnings per share for the year ended 31 December 2006 by 0.8 pence per share (2005: 0.7 pence per share).

18. Goodwill

	2006 £'m	Restated 2005 £'m
Cost and net book amount		
At 1 January	**385.4**	357.3
Additions during the year	**1,167.0**	27.6
Exchange differences	**(0.3)**	0.5
At 31 December	**1,552.1**	385.4

The additions during the year ended 31 December 2006 related principally to the group's acquisition of Unilog, Worksuite Limited, Worksuite Inc and WM-data (note 36).

Goodwill impairment tests

Goodwill acquired in a business combination is allocated to one or more cash-generating units ('CGUs'). For the IT services business segment, CGUs represent the operations of a country or, in more material operations, divisions within a country. For the Telecoms Products business segment, CGUs represent a product area. The following table shows the allocation of the carrying value of goodwill at the balance sheet date by business segment and, for the IT services business segment, by geographic area:

	2006 £'m	Restated 2005 £'m
IT services		
United Kingdom	**167.6**	167.6
Nordics	**686.9**	–
France	**456.5**	10.2
Netherlands	**14.7**	14.9
Germany	**95.3**	59.8
International	**99.1**	100.9
	1,520.1	353.4
Telecoms Products	**32.0**	32.0
	1,552.1	385.4

The comparative information in the tables above has been amended so that the new International category includes the previously reported Iberia, Rest of Europe and Rest of World categories.

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 2006, the recoverable amounts of CGUs were determined from value in use calculations, except for the Nordics category. 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. For the Nordics, the 'fair value less costs to sell' valuation method was used to determine if any impairment occurred as at 31 December 2006. The fair value less costs to sell valuation approach has been used for the Nordics as the entire goodwill for this category pertains to the acquisition of WM-data. The purchase price paid is considered to equal the fair value of the CGUs within the Nordics category.

In all cases, except for the Nordics, 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 10.1% (2005: 10.0%) to 16.4% (2005: 15.6%).

The discount rates applied to the most significant CGUs in the IT services business were as follows:

	2006 %	2005 %
United Kingdom*	**13.4**	12.7
France	**12.6**	11.6

*Weighted average discount rate applied to CGUs in the United Kingdom IT services business.

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 9. 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 margin applied to CGUs were in the range of 5.0% (2005: 5.0%) to 10.0% (2005: 10.0%).

Notes to the consolidated financial statements (continued)

18. Goodwill (continued)

The long-term operating margin assumed for the most significant CGUs in the IT services business were as follows:

	2006 %	2005 %
United Kingdom*	**10.0**	10.0
France	**10.0**	5.0

*Weighted average long-term operating margin applied to CGUs in the United Kingdom IT services business.

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 1.4% (2005: 1.1%) to 4.9% (2005: 4.8%).

The long-term growth rate of net operating cash flows assumed for the most significant CGUs in the IT services business were as follows:

	2006 %	2005 %
United Kingdom	**2.4**	2.5
France	**3.1**	3.2

No goodwill impairment charge was recognised in the year ended 31 December 2006 (2005: £nil).

19. 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 2005	16.1	12.5	–	–	–	28.6
Additions	1.5	5.6	–	–	–	7.1
Acquisition of subsidiary	4.4	–	4.0	6.1	–	14.5
Disposals	(0.8)	–	–	–	–	(0.8)
Exchange differences	0.7	(0.4)	–	–	–	0.3
At 1 January 2006	21.9	17.7	4.0	6.1	–	49.7
Additions	8.3	11.3	–	–	–	19.6
Acquisition of subsidiaries	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 31 December 2006	**28.1**	**29.3**	**104.8**	**286.9**	**32.3**	**481.4**
Accumulated amortisation						
At 1 January 2005	10.5	9.0	–	–	–	19.5
Charge for the year	3.5	1.4	0.5	0.5	–	5.9
Disposals	(0.5)	–	–	–	–	(0.5)
Exchange differences	(0.1)	(0.4)	–	–	–	(0.5)
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 31 December 2006	**15.8**	**12.0**	**13.6**	**23.3**	**1.6**	**66.3**
Net carrying amount						
At 31 December 2006	**12.3**	**17.3**	**91.2**	**263.6**	**30.7**	**415.1**
At 31 December 2005	8.5	7.7	3.5	5.6	–	25.3

During the year ended 31 December 2006, the brand names, customer contracts/relationships and software products of Unilog and WM-data were acquired and recognised at fair value.

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.

19. Other intangible assets (continued)

The net book values of individually material intangible assets and their remaining useful life as at 31 December 2006 were as follows:

	Carrying value £'m	Remaining useful life Years
WM-data brand name	**54.2**	2.8
Unilog brand name	**29.3**	4.0

20. Property, plant and equipment

	Freehold land and buildings £'m	Leasehold property and improvements £'m	Equipment and plant £'m	Total £'m
Cost				
At 1 January 2005	7.5	46.1	195.2	248.8
Additions	3.1	7.2	20.3	30.6
Acquisition of subsidiary	8.6	6.4	14.6	29.6
Disposals	–	(4.2)	(24.3)	(28.5)
Exchange differences	0.1	0.4	(2.4)	(1.9)
At 1 January 2006	19.3	55.9	203.4	278.6
Additions	–	4.4	29.7	34.1
Acquisition of subsidiaries	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 31 December 2006	**24.0**	**59.0**	**237.5**	**320.5**
Accumulated depreciation				
At 1 January 2005	–	21.5	150.8	172.3
Charge for the year	0.7	5.2	24.5	30.4
Disposals	–	(2.2)	(21.9)	(24.1)
Exchange differences	–	0.1	(2.6)	(2.5)
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 31 December 2006	**0.6**	**29.1**	**154.2**	**183.9**
Net carrying amount				
At 31 December 2006	**23.4**	**29.9**	**83.3**	**136.6**
At 31 December 2005	18.6	31.3	52.6	102.5

Equipment and plant included assets held under finance leases with a net book value of £5.2 million (2005: £4.1 million). Additions to equipment and plant during the year amounting to £3.1 million (2005: £0.4 million) were financed by new finance leases.

21. Investments in associates

The carrying value of the group's investments in associates at 31 December is shown below:

	2006 £'m	Restated 2005 £'m
Associates	**6.0**	304.6

Investments in associates	**£'m**
At 1 January 2006	**304.6**
Increase in stake to subsidiary	**(304.1)**
Acquired through business combinations	**5.2**
Share of post-tax profits of associates	**0.3**
At 31 December 2006	**6.0**

During the year ended 31 December 2006, the group increased its stake in Unilog to 100% interest in the ordinary shares (see note 36).

Notes to the consolidated financial statements (continued)

21. Investments in associates (continued)

Summarised information in respect of associates at 31 December 2006 is provided below on a 100% interest basis and, where relevant, after provisional fair value adjustments.

	2006 £'m	2005 £'m
Assets	**27.8**	340.8
Liabilities	**(15.7)**	(261.5)
Revenue	**13.1**	95.3
Net profit	**0.5**	5.9

Details of the company's principal subsidiary undertakings and associates are shown in the notes to the company's financial statements on page 113.

22. Financial assets

	2006 £'m	2005 £'m
Insurance contracts held to fund defined benefit pension and life assurance arrangements (note 38)	**8.6**	9.2
Other financial assets	**1.5**	–
	10.1	9.2

23. Inventories

	2006 £'m	2005 £'m
Computer equipment not allocated to a customer contract	**0.5**	0.3
Materials used in document printing and finishing	**2.4**	2.1
	2.9	2.4

The directors estimate that the carrying value of inventories approximated their fair value.

24. Trade and other receivables

	2006 £'m	Restated 2005 £'m
Trade receivables	**626.2**	328.0
Less: provision for impairment	**(8.1)**	(7.0)
Trade receivables – net	**618.1**	321.0
Amounts recoverable on contracts	**297.7**	223.8
Prepayments and accrued income	**123.2**	79.3
Derivative financial instruments	**1.4**	2.1
Other receivables	**29.8**	22.0
	1,070.2	648.2

Amounts recoverable on contracts included amounts due for settlement after more than one year of £40.6 million at 31 December 2006 (2005: £48.6 million).

The group's credit risk on trade and other receivables is primarily attributable to trade receivables and amounts recoverable on contracts. The amounts presented in the table above are net of allowances for doubtful recoverability and foreseeable losses and represented the group's maximum exposure to credit risk for trade and other receivables. 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.

Contracts accounted for under the percentage-of-completion method

Contracts in progress at the balance sheet date:	2006 £'m	2005 £'m
Contract costs incurred plus recognised profits less recognised losses to date	**3,823.8**	3,681.7
Less: progress billings	**(3,636.1)**	(3,554.6)
	187.7	127.1
Recognised as:		
Amounts due from contract customers included in trade and other receivables	**297.7**	223.8
Amounts due to contract customers included in trade and other payables	**(110.0)**	(96.7)
	187.7	127.1

25. Trade and other payables

	2006 £'m	Restated 2005 £'m
Trade payables	**188.9**	90.9
Payments received on account on contracts	**110.0**	96.7
Accruals	**161.5**	122.8
Social security and other taxes	**186.1**	70.8
Employee benefit liabilities	**119.8**	31.5
Derivative financial instruments	**0.4**	0.3
Other payables	**119.7**	40.1
	886.4	453.1

The comparative information in the table above has been amended to show employee benefit liabilities as a separate category. This has resulted in £31.5 million being reclassified to the new employee benefit liabilities category from the other creditors category.

The directors estimate that the carrying value of trade and other payables approximated their fair value.

26. Borrowings

	2006 £'m	2005 £'m
Current		
Bank overdrafts	**26.4**	–
Bank loans	**1.6**	15.5
2.875% 2008 convertible bonds	**202.4**	205.0
Finance lease obligations	**4.1**	2.6
Loan notes	**–**	0.4
Other borrowings	**1.0**	–
	235.5	223.5
Presented as:		
Convertible debt	**202.4**	205.0
Other borrowings	**33.1**	18.5
	235.5	223.5
Non-current		
Bank loans	**496.4**	115.7
Finance lease obligations	**2.4**	2.2
Other borrowings	**0.1**	–
	498.9	117.9

The maturity profile of borrowings is as follows:

	2006 £'m	2005 £'m
On demand or within one year	**235.5**	223.5
In one to two years	**155.5**	6.7
In two to five years	**343.4**	111.2
	734.4	341.4

Bank loans

At 31 December 2006, 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 2006, £96.5 million was drawn down under the facility (2005: £114.6 million) and carried an interest rate of 0.95% over LIBOR (2005: 1.1% over LIBOR).
- a €348 million (£235.1 million) term loan maturing on 19 September 2010. At 31 December 2006, the term loan was drawn down in full and carried an interest rate of 1.0% over LIBOR. The term loan was undrawn at 31 December 2005.
- a SEK2,058 million (£153.7 million) term loan maturing on 20 August 2008. The facility was entered into on 20 August 2006 and was made available solely for the purpose of the acquisition of shares in WM-data and payment of associated transaction costs. At 31 December 2006, the term loan was drawn down in full and carried an interest rate of 0.95% over LIBOR.

The obligations of the borrowers under the £330 million and €348 million bank loans are guaranteed by the principal UK and Dutch trading subsidiaries, LogicaCMG UK Limited and LogicaCMG Nederland B.V. The SEK2,058 million bank loan is guaranteed by LogicaCMG UK Limited.

Notes to the consolidated financial statements (continued)

26. Borrowings (continued)

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 2006, the bond holders held rights over the allotment of 64,635,376 (2005: 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 £2.8 million (2005: £2.4 million). At maturity, the group would be contractually required to repay €303.4 million (£205.0 million) compared to a fair value on 31 December 2006 of €299.6 million (£202.4 million).

IAS 1 'Presentation of Financial Statements' requires that liabilities should be classified as current when an entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. The convertible bonds are potentially exchangeable into ordinary shares of the company at any time up to 14 days prior to 19 September 2008. Accordingly, the convertible bonds have been classified as a current liability even though settlement may ultimately not occur until the redemption date of 19 September 2008.

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	
	2006 £'m	2005 £'m	**2006 £'m**	2005 £'m
Within one year	**4.4**	2.8	**4.1**	2.6
In two to five years	**2.9**	2.3	**2.4**	2.2
In more than five years	**–**	–	**–**	–
	7.3	5.1	**6.5**	4.8
Future finance charges	**(0.8)**	(0.3)		
Present value of lease obligations	**6.5**	4.8		

The group's obligations under finance leases are secured by the lessor's title to the leased assets.

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.

The weighted average effective interest rate on borrowings at the balance sheet date was as follows:

	2006 %	2005 %
Bank overdrafts	**5.1**	–
Bank loans	**4.2**	5.0
Finance lease obligations	**7.9**	5.1
Convertible bonds	**2.9**	2.9
Other borrowings	**1.4**	–
Loan notes	**–**	3.7

The mark-to-market movement in the convertible bonds recognised as either interest expense or interest income has not been included in calculating the effective interest rate on the convertible bonds in the table above.

26. Borrowings (continued)

An analysis of borrowings at the balance sheet date by the earlier of maturity or, for floating rate borrowings, the earliest contractual repricing date, was as follows:

	2006 £'m	2005 £'m
On demand or within one year	**732.1**	333.7
In one to two years	**2.0**	6.6
In two to three years	**0.3**	1.1
In three to four years	**–**	–
In four to five years	**–**	–
In more than five years	**–**	–
	734.4	341.4

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 27) 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:

	2006 £'m	2005 £'m
Bank overdrafts	**26.4**	–
Bank loans	**501.3**	135.9
Finance lease obligations	**6.4**	4.8
Convertible bonds	**202.4**	205.0
Loan notes	**–**	0.4
Other borrowings	**1.1**	–
	737.6	346.1

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.

27. Financial instruments

Financial risk management

The multi-national nature of the group's operations and their financing expose it to a variety of financial risks. The principal risks that the group is exposed to are 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 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.

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 substantially hedged by managing the currency mix of the group's borrowings. The group used euro, US dollar and Swedish krona borrowings to hedge the balance sheet translation of operations with the euro, US dollar 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, amounts not denominated in the functional currencies are hedged economically by means of forward contracts or currency overdrafts.

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 2006, the group had £208.9 million (2005: £221.0 million) of fixed rate borrowings out of total borrowings of £734.4 million (2005: £341.4 million).

Notes to the consolidated financial statements (continued)

27. Financial instruments (continued)

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 2006, the group had committed floating rate bank facilities of £718.8 million (2005: £568.4 million) of which £484.9 million (2005: £114.6 million) had been drawn down. The highest amount drawn down on these facilities during 2006 was £594.5 million (2005: £237.5 million).

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:

	2006		2005	
	Assets £'m	**Liabilities £'m**	Assets £'m	Liabilities £'m
Forward foreign exchange contracts	**1.4**	**(0.4)**	2.1	(0.3)

The principal currencies of forward foreign exchange contracts outstanding at 31 December 2006 were the euro, Swedish krona and US dollar. The notional amounts outstanding at that date were €271.8 million (net buying) (2005: €172.9 million (net buying)), SEK214.8 million (net selling) (2005: SEKnil) and $68.8 million (net selling) (2005: $93.1 million (net selling)).

Hedges of net investments in foreign operations

On 1 January 2006, the group had euro and US dollar borrowings which it has designated as a hedge of the net investment in its subsidiaries in eurozone countries and the United States. The designated borrowings comprised the 2.875% 2008 convertible bonds and the euro and US dollar amounts drawn down under the group's £330 million revolving credit facility. The euro and US dollar amounts drawn down under the revolving credit facility were repaid during the year and the US dollar net investment hedge was cancelled on the date of repayment. The euro net investment hedge at 31 December 2006 comprised only the 2.875% 2008 convertible bonds. The fair value of the designated euro borrowings at 31 December 2006 was £202.4 million (2005: £253.6 million) and that of the US dollar borrowings was £nil (2005: £15.9 million).

The Swedish krona drawn down under the group's SEK2,058 million bank loan and the Swedish krona drawn down under the group's £330 million revolving credit facility were designated as an additional hedging instrument during 2006. The fair value of the Swedish krona borrowings was £250.2 million (2005: £nil).

The foreign exchange loss of £1.3 million relating to these borrowings in the year ended 31 December 2006 (2005: gain of £5.2 million) has been recognised directly in the translation reserve.

Cash flow hedges

During the 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 2006, the group had no derivative instruments that were part of a cash flow hedge relationship.

28. Provisions

	Vacant properties £'m	**Restructuring £'m**	**Other £'m**	**Total £'m**
At 1 January 2006	13.0	0.5	1.5	15.0
Charged in the year	6.4	28.0	3.0	37.4
Utilised in the year	(9.7)	(22.6)	(1.8)	(34.1)
Acquisition of subsidiaries	6.0	7.5	2.2	15.7
Exchange differences	–	0.1	(0.1)	–
At 31 December 2006	**15.7**	**13.5**	**4.8**	**34.0**

Analysed as:	
Current liabilities	**20.8**
Non-current liabilities	**13.2**
	34.0

Vacant properties

Provisions for vacant properties represent residual lease commitments, together with associated outgoings, 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, France, Sweden and in the United States of America. At 31 December 2006, non-current vacant property provisions amounted to £8.3 million of which £6.4 million was payable within five years and the balance thereafter.

Restructuring

At 31 December 2006 the restructuring provision mainly related to the restructuring of the businesses in France and Germany following the acquisition of Unilog. The restructuring comprised a reduction in headcount and other measures to reduce the cost base. At 31 December 2006, £10.8 million of the restructuring provision was payable within one year with the remaining balance payable between one and two years.

29. 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 2005	1.8	(0.8)	18.0	7.1	(30.0)	(8.6)	(12.5)
Credit/(charge) to profit or loss for the year	0.9	(0.2)	(0.2)	(1.2)	1.4	2.7	3.4
(Charge)/credit to equity	–	–	(4.5)	–	–	0.3	(4.2)
Reclassification from current tax	–	–	–	–	(7.9)	–	(7.9)
Acquisition of subsidiary	0.9	0.6	–	–	–	(1.5)	–
Exchange differences	–	–	0.1	0.2	1.0	(0.4)	0.9
At 1 January 2006	3.6	(0.4)	13.4	6.1	(35.5)	(7.5)	(20.3)
(Charge)/credit 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 subsidiaries	3.0	(103.6)	1.2	1.3	–	(2.4)	(100.5)
Exchange differences	–	(0.6)	–	(0.2)	–	0.3	(0.5)
At 31 December 2006	**3.6**	**(92.3)**	**6.1**	**12.2**	**(25.6)**	**(17.8)**	**(113.8)**

The deferred tax liability for goodwill arises as temporary deductions are allowed for tax purposes in certain territories. The reclassification from current tax relates to temporary differences, with the group receiving a current tax benefit in previous periods which will be reversed in future periods.

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:

	2006 £'m	2005 £'m
Deferred tax assets	**50.6**	36.0
Deferred tax liabilities	**(164.4)**	(56.3)
	(113.8)	(20.3)

At 31 December 2006, the group had unused tax losses of £298.4 million (2005: £170.6 million) available for offset against future taxable profits for which no deferred tax asset had been recognised. At 31 December 2006, £88.3 million (2005: £25.4 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 has estimated that tax of £14.6 million (2005: £16.4 million) would arise in respect of remitting all earnings of overseas subsidiaries to the United Kingdom to the extent legally possible.

30. Share capital of LogicaCMG plc

Authorised	**2006 £'m**	2005 £'m
2,250,000,000 (2005: 1,750,000,000) ordinary shares of 10 pence each	**225.0**	175.0

	2006		2005	
Allotted, called-up and fully paid	**Number**	**£'m**	Number	£'m
At 1 January	**1,146,238,652**	**114.6**	750,915,581	75.1
Allotted under share option schemes	**2,595,389**	**0.3**	255,221	–
Allotted to acquire WM-data shares	**377,848,632**	**37.8**	–	–
Allotted to acquire WM-data convertible debentures	**9,015,809**	**0.9**	–	–
Allotted to acquire associate interest in Unilog	**–**	**–**	19,572,703	2.0
Rights issue	**–**	**–**	375,495,147	37.5
At 31 December	**1,535,698,482**	**153.6**	1,146,238,652	114.6

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. The authorised share capital was increased by 500,000,000 ordinary shares at the Extraordinary General Meeting on 2 October 2006.

On 13 October 2006 and 24 October 2006, the company issued 337,503,074 and 40,345,558 shares respectively to acquire a 95.33% economic interest in WM-data's equity share capital. On the same dates, the company issued 8,318,096 and 697,713 shares to acquire a 96.48% holding in WM-data convertible debentures.

Notes to the consolidated financial statements (continued)

31. Share premium

	2006 £'m	2005 £'m
At 1 January	1,084.8	707.3
Premium on shares allotted under share option schemes	3.1	0.2
Premium on shares allotted to acquire WM-data convertible debentures, net of expenses	9.1	–
Premium on shares allotted to acquire associate interest in Unilog	–	26.1
Rights issue, net of expenses	–	351.2
At 31 December	1,097.0	1,084.8

The company issued 377,848,632 new ordinary shares during October 2006 to acquire a 95.33% equity interest in WM-data. In respect of the issuance of those shares, the company has applied Section 131 of the Act. Section 131 of the Act is applicable where a purchaser company acquires 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. When applicable, the section requires 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 shares it issued to acquire WM-data. In the consolidated balance sheet, a merger reserve of £617.1 million has been recognised, representing the excess of the fair value over the nominal value of shares issued, as disclosed in note 32.

During the year ended 31 December 2006, the share premium account was reduced by £5.6 million of expenses related to the issuance of new ordinary shares (2005: £13.1 million).

32. Other reserves

	Retained earnings £'m	Treasury shares £'m	Translation reserve £'m	Hedging reserve £'m	Merger reserve £'m	Other £'m	Total £'m
At 1 January 2005	(380.7)	(35.9)	(9.4)	–	–	2.7	(423.3)
Net profit for the year	66.6	–	–	–	–	–	66.6
Dividends paid	(43.5)	–	–	–	–	–	(43.5)
Share-based payment	5.9	–	–	–	–	–	5.9
Actuarial gains	12.7	–	–	–	–	–	12.7
Sale of nil paid rights	–	1.9	–	–	–	–	1.9
Purchase of own shares	–	(1.9)	–	–	–	–	(1.9)
Tax on items taken to equity	(4.2)	–	–	–	–	–	(4.2)
Exchange differences	–	–	10.0	–	–	(3.5)	6.5
Cash flow hedges							
– losses in the year	–	–	–	(1.2)	–	–	(1.2)
– transferred to investments	–	–	–	1.2	–	–	1.2
At 31 December 2005	(343.2)	(35.9)	0.6	–	–	(0.8)	(379.3)
Decrease in share of post-tax profit from associates	(0.8)	–	–	–	–	–	(0.8)
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 31 December 2006	**(302.5)**	**(35.9)**	**(6.2)**	**–**	**617.1**	**1.9**	**274.4**

Treasury shares

The group holds shares in LogicaCMG plc in three discretionary trusts which were set up for the benefit of LogicaCMG employees. The trusts purchase the company's shares in the market for use in connection with the group's employee share schemes. The amount shown in the treasury shares reserve at 31 December 2006, 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 2006, the employee trusts owned 15,588,650 ordinary shares (2005: 15,741,068) with a nominal value of £1.6 million (2005: £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 2006 and 2005, 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; and
- exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

32. Other reserves (continued)

Hedging reserve

The hedging reserve contains the accumulated gains and losses on hedging instruments that are a designated cash flow hedge less amounts recycled to the income statement or into the carrying value of hedged assets or liabilities.

Merger reserve

The merger reserve represented the excess of the fair value over the nominal value of shares issued by the company to acquire WM-data ordinary shares during October 2006 as described in note 31.

33. Minority interests

	2006 £'m	Restated 2005 £'m
At 1 January	**17.2**	2.3
Share of net profit for the year	**7.1**	3.0
Share of actuarial gains/(losses) on defined benefit schemes, net of tax	**0.1**	(0.7)
Acquisitions and buyout of minority interests	**7.5**	13.7
Dividends paid to minority interests	**(1.8)**	(0.9)
Disposals of subsidiaries	**(0.7)**	–
Exchange differences	**–**	(0.2)
At 31 December	**29.4**	17.2

34. Reconciliation of operating profit to cash generated from operations

	2006 £'m	2005 £'m
Operating profit from all operations	**155.8**	120.1
Adjustments for:		
Share-based payment expense	**10.2**	6.3
Depreciation of property, plant and equipment	**32.7**	30.4
Loss/(profit) on disposal of non-current assets and subsidiaries	**1.0**	(6.4)
Amortisation of intangible assets	**46.0**	5.9
Net movements in provisions	**3.0**	(5.9)
Derivative financial instruments	**0.6**	(2.2)
Defined benefit plans	**(13.4)**	(1.2)
	80.1	26.9
Movements in working capital:		
Inventories	**0.1**	0.1
Trade and other receivables	**(46.3)**	(11.5)
Trade and other payables	**27.1**	31.4
	(19.1)	20.0
Cash generated from operations	**216.8**	167.0
Add back: cash outflow related to property reorganisation expense	**–**	0.8
Add back: cash outflow related to restructuring and integration activities	**33.6**	13.0
Net cash inflow from trading operations	**250.4**	180.8

In 2005, the cash flows from the discontinued operation were not material for the group and accordingly have not been presented separately. The reconciliation of operating profit to cash generated from operations in the table above represents the activities of both continuing and discontinued operations.

35. Reconciliation of movements in net debt

	At 1 January 2006 £'m	**Cash flows £'m**	**Acquisitions and disposals* £'m**	**Other non-cash movements £'m**	**Exchange differences £'m**	**At 31 December 2006 £'m**
Cash and cash equivalents	245.3	(61.3)	–	–	(6.7)	**177.3**
Bank overdrafts	–	(9.0)	(17.4)	–	–	**(26.4)**
Finance leases	(4.8)	2.1	(0.8)	(3.1)	0.1	**(6.5)**
Bank loans	(131.2)	(272.6)	(89.1)	(1.7)	(3.4)	**(498.0)**
Other loans	(0.4)	3.8	(20.2)	15.6	0.1	**(1.1)**
Convertible bonds	(205.0)	–	–	(0.2)	2.8	**(202.4)**
Net debt	(96.1)	(337.0)	(127.5)	10.6	(7.1)	**(557.1)**

*Excludes cash and cash equivalents assumed on acquisition of businesses, amounting to £133.0 million.

Financial statements

Notes to the consolidated financial statements (continued)

35. Reconciliation of movements in net debt (continued)

Cash and cash equivalents at the balance sheet date comprised:

	2006 £'m	2005 £'m
Cash at bank and in hand	**141.2**	135.1
Short-term deposits	**36.1**	110.2
Cash and cash equivalents	**177.3**	245.3

Cash and cash equivalents were invested on a floating rate basis and were therefore subject to cash flow interest rate risk. The group's credit risk on cash and cash equivalents is limited because the counterparties are well-established banks with high credit ratings. Included in cash and cash equivalents 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.

36. Acquisition of subsidiaries

Acquisition of Unilog S.A.

On 13 January 2006, the group acquired a controlling 96.6% interest in the ordinary share capital of Unilog S.A. ('Unilog'). Due to the existence of shares with double voting rights not held by the group, this equated to a 95.8% interest in the voting rights of Unilog. The Unilog group of companies is a leading IT services provider of management and IT consultancy, systems integration, outsourcing and training services based in France and with overseas offices in Germany, Switzerland, the United Kingdom, Austria and Luxembourg.

The group's 96.6% interest in Unilog at the date of acquisition was acquired through the following steps:

- a 'block trade' purchase from certain members of the senior management of Unilog of 32.3% on 25 October 2005;
- market purchases during November and December 2005 and January 2006, amounting to an additional 14.8% interest; and
- a further bulk purchase of 49.5% on 13 January 2006 following the completion of the public tender offer.

The cost of the acquisition of £620.1 million is analysed below. The cost of acquisition included 19,572,703 ordinary shares issued as part of the block trade purchase. The shares were attributed a fair value based on the closing mid-market price prevailing on 25 October 2005 of 143.5 pence per share.

The fair values of the identifiable assets and liabilities of Unilog on 13 January 2006 were as follows:

	Carrying amount pre-acquisition £'m	Fair value £'m
Net assets acquired:		
Intangible assets	2.0	**141.0**
Property, plant and equipment	14.7	**13.2**
Other non-current assets	1.6	**0.1**
Trade and other receivables	199.9	**196.4**
Cash and cash equivalents	120.6	**120.6**
Trade and other payables	(214.4)	**(223.1)**
Current tax payable	–	**(0.5)**
Borrowings	(34.7)	**(33.8)**
Retirement benefit obligation	(7.2)	**(8.8)**
Provisions	(3.9)	**(2.1)**
Deferred tax	1.4	**(45.9)**
	80.0	**157.1**
Minority interests		**(5.7)**
Share of net assets acquired		**151.4**
Profit recognised as an associate		**(1.5)**
		149.9
Goodwill		**470.2**
Total consideration		**620.1**
Total consideration comprised:		
Cash		**582.0**
New ordinary shares issued		**28.1**
Directly attributable costs		**10.0**
		620.1

36. Acquisition of subsidiaries (continued)

The values of certain intangible assets relating to acquired trade names, customer contracts and internally generated software were valued at £139.7 million. The goodwill recognised of £470.2 million is attributable to anticipated synergies and the value of the workforce.

Unilog contributed revenues of £564.9 million and net profit (after amortisation of intangible assets recognised on acquisition) of £15.1 million for the period from 13 January 2006 to 31 December 2006.

The group exercised its right to acquire the minority shares of Unilog and, on 14 July 2006, Unilog became a wholly owned subsidiary. The cost of the buyout of the minority shareholdings was a cash payment of £23.3 million and gave rise to additional goodwill of £16.2 million. The consideration paid to acquire the minority shareholders in Unilog is not included in the table above.

Acquisition of Worksuite

On 31 January 2006, the group acquired from Severn Trent Systems Limited the entire share capital of Worksuite Limited and the business and assets of UK CIS, a division of Severn Trent Systems Limited. On the same day, the group also acquired the entire share capital of Worksuite LLC and the business and assets of US CIS, a division of Computer Systems and Applications Inc. The companies acquired provide IT services with offices in the United States of America and the United Kingdom.

The fair values of the identifiable assets and liabilities of Worksuite on 31 January 2006 were as follows:

	Carrying amount pre-acquisition £'m	**Fair value £'m**
Net assets acquired:		
Intangible assets	0.9	**–**
Property, plant and equipment	0.3	**–**
Trade and other receivables	2.6	**2.1**
Trade and other payables	(3.4)	**(3.5)**
Provisions	–	**(0.1)**
	0.4	**(1.5)**
Goodwill		**3.2**
Total consideration		**1.7**
Total consideration comprised:		
Cash		**1.6**
Directly attributable costs		**0.1**
		1.7

The goodwill recognised of £3.2 million is attributable to anticipated synergies and the value of the workforce.

Worksuite contributed revenues of £4.7 million and net loss of £0.7 million for the period from 31 January 2006 to 31 December 2006. If the acquisition had occurred at the beginning of the financial period, the group's pro forma revenue and net profit for the year ended 31 December 2006 would not be materially different from that reported in the consolidated income statement.

Acquisition of WM-data AB (publ)

On 13 October 2006, the group acquired a controlling 85.19% interest in the ordinary share capital of WM-data AB (publ) ('WM-data'), following the end of the initial offer acceptance period. The group's holding on the date of acquisition comprised 30,000,000 A shares and 327,992,973 B shares. Holders of WM-data A shares are entitled to ten votes per A share and holders of B shares are entitled to one vote per B share. Accordingly, the group held 90.98% of the voting rights of WM-data on the date of acquisition. WM-data is a leading IT services provider based principally in the Nordic region whose activities include application development and management, outsourcing and industry-specific solutions, infrastructure solutions and industrial design and development.

The cost of the acquisition of £745.9 million is analysed in the table below. The cost of acquisition included the issue of 337,503,074 ordinary shares of LogicaCMG plc. The ordinary shares issued were attributed a fair value based on the closing mid-market price prevailing on 13 October 2006 of 173.75 pence per share.

The offer for WM-data included an offer to acquire all outstanding WM-data convertible debentures. On 13 October 2006, the group acquired WM-data convertible debentures with a nominal value of SEK184.1 million, which were potentially convertible into 8,764,690 WM-data B shares, for the issue of 8,318,096 ordinary shares of LogicaCMG plc and cash of £3.7 million.

Notes to the consolidated financial statements (continued)

36. Acquisition of subsidiaries (continued)

The provisional fair values of the identifiable assets and liabilities of WM-data on 13 October 2006 were as follows:

	Carrying amount pre-acquisition £'m	**Provisional fair value £'m**
Net assets acquired:		
Intangible assets	62.8	**274.1**
Property, plant and equipment	23.0	**23.0**
Other non-current assets	11.1	**11.7**
Inventories	0.6	**0.6**
Trade and other receivables	186.4	**186.4**
Cash and cash equivalents	12.4	**12.4**
Trade and other payables	(180.4)	**(181.6)**
Current tax	5.4	**5.4**
Borrowings	(86.0)	**(92.8)**
Retirement benefit obligations	(4.1)	**(5.1)**
Provisions	(9.6)	**(13.5)**
Deferred tax	1.4	**(54.6)**
	23.0	**166.0**
Minority interests		**(24.7)**
Share of net assets acquired		**141.3**
Goodwill		**604.6**
Total consideration		**745.9**
Total consideration comprised:		
Cash		**149.2**
New ordinary shares issued		**586.4**
Directly attributable costs		**10.3**
		745.9

The fair value adjustments contain some provisional amounts which will be finalised within 12 months of the date of acquisition. The values of certain intangible assets relating to brand names, customer contracts/relationships and software products were provisionally valued at £270.6 million. The goodwill recognised of £604.6 million is attributable to anticipated synergies and the value of the workforce.

WM-data contributed revenues of £185.6 million and net profit (after amortisation of intangible assets recognised on acquisition) of £6.7 million for the period from 13 October 2006 to 31 December 2006.

Increase in stake in WM-data

On 10 October 2006, the group announced that the offer acceptance period would be extended for a further seven days to 17 October 2006. The group acquired a further 10.14% interest in the ordinary share capital of WM-data on 24 October 2006, following acceptances received during the extended period, bringing the group's aggregate holding to 95.33% of the ordinary share capital of WM-data and 97.16% of the voting rights.

The cost of the increase in stake in WM-data was £86.0 million, which comprised the issue of 40,345,558 ordinary shares of LogicaCMG plc and cash of £17.5 million. The ordinary shares issued were attributed a fair value based on the closing mid-market price prevailing on 24 October 2006 of 169.75 pence per share. In addition, the group acquired WM-data convertible debentures with a nominal value of SEK15.4 million, which were potentially convertible into 734,706 WM-data B shares, for the issue of 697,713 ordinary shares of LogicaCMG plc and cash of £0.3 million.

The consideration paid to acquire the increased interest in WM-data is not included in the acquisition table above. The increase in stake in WM-data gave rise to additional goodwill of £69.1 million and a reduction in minority interests of £16.9 million.

Pro-forma financial information

If the acquisition of Unilog and WM-data had occurred at the beginning of the financial year, the group's pro forma revenue and net profit for the year ended 31 December 2006 would have been approximately £3,257.3 million and £93.9 million respectively, based on the following principal assumptions:

- alignment of accounting policies with those of the LogicaCMG group for the period pre-acquisition;
- fair value adjustments made as if they had occurred at the beginning of the financial year, with subsequent consequential adjustments to depreciation, amortisation and other related items of income and expense;
- an increased interest cost to reflect debt funding of the acquisition from 1 January 2006; and
- the tax effect of the adjustments above.

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 scheme, 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 conditions 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 (i.e. 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 LogicaCMG 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 LogicaCMG 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 Scheme

The group operates a savings-related share option scheme 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 the day prior to 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 scheme 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 condition having been met. The performance condition in respect of the ExEPP 2006 has the same criteria as the company's LTIP performance condition 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 3% per annum in each year of the 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 performance conditions are met in only one or two years out of 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 May 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.

Notes to the consolidated financial statements (continued)

37. 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 ten 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 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, however, option grants in 2005 and 2006 have a four year exercise period. Retesting of performance conditions may be carried out twice for 2003 option grants, once for 2004 option grants and no retesting is permitted on grants made 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 to five former Unilog managers. This was a one-off conditional share award. For 1,100,000 options the first half of the award will vest subject to the growth in the group's annual earnings per share exceeding the growth in the Retail Price Index by at least 3% between the end of the 2005 financial year and the end of the 2006 financial year. This part of the award will vest in full if the growth in the group's annual earnings per share exceeds the growth in the Retail Price Index by at least 7% over the same period. Between 3% and 7%, this part of the award will vest pro rata on a straight line basis. To the extent that the first half of the award does not vest, the shares which are not transferred will be added to the shares comprised in the second half of the award. The second part of the award will not vest if the group's growth in annual earnings per share does not exceed the growth in the Retail Price Index by at least 6% between the end of the 2005 financial year and the end of the 2007 financial year. This part of the award will vest in full if the growth in the group's annual earnings per share exceeds the growth in the Retail Price Index by at least 14% over the same period. Between these points, this part of the award will vest pro rata on a straight line basis.

The remaining 690,000 options will vest subject to the achievement of individually set performance targets based on the following:

- 50% of the award will be subject to the overall profit targets of the business under the employee's control or targeted integration benefits;
- 25% of the award will be subject to the continued employment of these key managers; and
- 25% of the award will be subject to acceptable attrition figures.

One half of the shares may be transferred as soon as practicable after 31 December 2006 and 31 December 2007.

Unilog Plan

Following the acquisition of Unilog on 13 January 2006, the company entered into liquidity agreements with most 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, i.e. 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 fair value of the original Unilog options at the date of grant and the modification date and the modified options measure at the date of modification were as follows:

		Date of modification	
Weighted average assumption	**Original Unilog options**	**Original Unilog options**	**Modified options**
Share price	£29.88	£51.05	£1.93
Exercise price	£29.82	£29.82	£0.93
Share options/awards	427,028	389,777	12,461,171
Vesting period (years)	4.80	–	2.71
Expected volatility (%)	20.0	–	36.0
Expected life (years)	4.80	–	2.71
Risk-free rate (%)	4.2	–	4.4
Dividend yield (%)	1.0	–	2.9
Fair value per share option/award	£6.90	£21.23	£1.00

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.

37. Share-based payment (continued)

A reconciliation of the movement in the number of share options and share awards outstanding is shown below:

	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**

	2005		
	Share options		Share awards
	Number of shares	Weighted average exercise price £	Number of shares
Outstanding at 1 January 2005	35,763,902	3.44	791,281
Granted	13,952,490	1.80	221,031
Exercised	(74,713)	1.29	(8,387)
Forfeited	(4,562,199)	3.70	(254,271)
Expired	(3,741,178)	5.45	–
Outstanding at 9 October 2005	41,338,302	2.68	749,654
Impact of rights issue	5,694,437	(0.32)	100,962
Outstanding at 9 October 2005	47,032,739	2.36	850,616
Exercised	(180,508)	0.95	(4,662)
Forfeited	(743,870)	2.21	(14,475)
Expired	(419,790)	4.60	–
Outstanding at 31 December 2005	45,688,571	2.34	831,479
Exercisable at 31 December 2005	10,685,155	3.86	163,341

The weighted average share price at the date of exercise of share options exercised during the year ended 31 December 2006 was 175.4 pence (2005: 170.7 pence).

Notes to the consolidated financial statements (continued)

37. Share-based payment (continued)

The exercise price and remaining contractual life of share options outstanding at the balance sheet date was as follows:

	2006		
Range of exercise prices	**Weighted average exercise price £**	**Weighted average remaining contractual life Years**	**Number of shares**
Less than £1.00	**0.52**	**3.3**	**26,806,739**
More than £1.00 and less than £2.00	**1.53**	**4.1**	**20,752,153**
More than £2.00 and less than £5.00	**2.56**	**4.0**	**12,093,928**
More than £5.00 and less than £10.00	**6.29**	**3.7**	**1,955,991**
More than £10.00	**15.55**	**3.7**	**803,912**
	1.63	**3.7**	**62,412,723**

	2005		
Range of exercise prices	Weighted average exercise price £	Weighted average remaining contractual life Years	Number of shares
Less than £1.00	0.81	3.1	4,875,690
More than £1.00 and less than £2.00	1.47	5.4	20,770,477
More than £2.00 and less than £5.00	2.61	4.4	16,943,453
More than £5.00 and less than £10.00	6.27	4.6	2,127,449
More than £10.00	15.44	4.4	971,502
	2.34	4.7	45,688,571

The fair value of share options and share awards granted in the 2006 and 2005 financial years and the assumptions used in the calculation of their fair value on the date of grant were as follows:

	2006					
Weighted average assumption	**Long Term Incentive Plan**	**Unilog Management Incentive**	**Executive Share Option Scheme**	**Sharesave Scheme**	**Employee Equity Partnership Plan**	**Executive Equity Partnership Plan**
Share price on date of grant	**£1.68**	**£1.89**	**£1.93**	**£1.93**	**£1.93**	**£1.93**
Exercise price	**nil**	**nil**	**£1.93**	**£1.93**	**nil**	**nil**
Share options/awards granted in the year	**6,583,516**	**1,790,000**	**205,000**	**2,310,071**	**169,766**	**544,440**
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**	**Note 1**	**3.3**	**3.0**	**3.0**
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**	**£0.77**	**£0.51**	**£1.76**	**£1.76**

	2005			
Weighted average assumption	Executive Share Option Scheme	Sharesave Scheme	Employee Equity Partnership Plan	Executive Equity Partnership Plan
Share price on date of grant	£1.80	£1.82	£1.82	£1.64
Exercise price	£1.80	£1.81	nil	nil
Share options/awards granted in the year	8,624,500	5,327,990	209,680	11,351
Vesting period (years)	3.0	3.0	3.0	3.0
Expected volatility (%)	59.0	55.3	–	–
Expected life (years)	Note 2	3.3	3.0	3.0
Risk-free rate (%)	4.6	4.6	–	–
Dividend yield (%)	3.2	3.2	3.2	3.5
Fair value per share option/award	£0.77	£0.65	£1.66	£1.48

[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 five years, subject to the market share price being at least 20% over the option exercise price. The balance are assumed to be exercised after seven years, providing the options are in the money.

[2] The assumed exercise behaviour of ESOS option holders for grants made in 2005 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 ten years, providing the options are in the money.

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 scheme 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 7% per annum was assumed for calculating the share-based payment expense for the year ended 31 December 2006 (2005: 10%).

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 £9.6 million in the year ended 31 December 2006 (2005: £5.9 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 schemes are treated as such an arrangement for accounting purposes. The liability for cash-settled share-based social security payments at 31 December 2006 was £1.8 million (2005: £1.2 million). The movement in the liability resulted in an expense for the year ended 31 December 2006 of £0.6 million (2005: gain of £0.4 million).

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 £64.0 million (2005: £35.3 million).

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 the 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.

The weighted average principal actuarial assumptions used at the balance sheet date were as follows:

	UK schemes		Overseas schemes	
	2006	2005	**2006**	2005
Discount rate (%)	**5.15**	4.75	**4.74**	4.24
Average life expectancy for 65-year-old male (years)	**20**	20	**17**	17
Expected return on plan assets (%)	**6.94**	6.85	**4.02**	3.67
Expected return on reimbursement rights (%)	**–**	–	**4.50**	4.82
General salary increases (%)	**3.10**	2.85	**1.98**	1.96
Rate of increase of pensions in payment (%)	**3.10**	2.80	**0.56**	0.47
Inflation (%)	**3.10**	2.80	**2.06**	2.15

Notes to the consolidated financial statements (continued)

38. Retirement benefit schemes (continued)

The amounts recognised in the income statement as employee benefit expense for defined benefit schemes were as follows:

	2006 UK schemes £'m	2006 Overseas schemes £'m	2006 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 costs included a £9.0 million gain which is presented as an exceptional item, further details of which are provided in note 8. 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.

	2005 UK schemes £'m	2005 Overseas schemes £'m	2005 All schemes £'m
Current service cost	6.1	5.6	11.7
Curtailment gain	–	(0.4)	(0.4)
Interest cost	9.7	6.7	16.4
Expected return on plan assets	(8.4)	(6.6)	(15.0)
Expected return on reimbursement rights	–	(0.4)	(0.4)
	7.4	4.9	12.3

The actual return on plan assets for UK schemes was a £15.0 million gain (2005: £25.9 million gain) and for overseas schemes was a £9.7 million loss (2005: £18.9 million gain). The actual return on reimbursement rights for overseas schemes was a £0.5 million loss (2005: £0.7 million gain).

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 2006 was £11.2 million (2005: loss of £6.3 million).

The amounts included in the balance sheet in respect of the group's defined benefit schemes were as follows:

	2006 UK schemes £'m	2006 Overseas schemes £'m	2006 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)

38. Retirement benefit schemes (continued)

	2005		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Present value of defined benefit obligations	(205.7)	(155.5)	(361.2)
Fair value of scheme assets	149.3	149.1	298.4
Deficit in the schemes	(56.4)	(6.4)	(62.8)
Past service cost not yet recognised	–	0.2	0.2
Fair value of reimbursement rights	–	9.2	9.2
Net (liability)/asset recognised in the balance sheet	(56.4)	3.0	(53.4)
Presented as:			
Financial assets	–	9.2	9.2
Retirement benefit assets	1.0	14.3	15.3
Retirement benefit liabilities	(57.4)	(20.5)	(77.9)
	(56.4)	3.0	(53.4)

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:

	2006		
Defined benefit obligation	**UK schemes £'m**	**Overseas schemes £'m**	**All schemes £'m**
At 1 January 2006	**205.7**	**155.5**	**361.2**
Current service cost	**6.0**	**6.0**	**12.0**
Past service cost	**(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 subsidiaries	**–**	**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**

	2005		
Defined benefit obligation	UK schemes £'m	Overseas schemes £'m	All schemes £'m
At 1 January 2005	181.9	140.2	322.1
Current service cost	6.1	5.6	11.7
Curtailment gain	–	(0.4)	(0.4)
Interest cost	9.7	6.7	16.4
Contributions from scheme members	1.2	0.2	1.4
Actuarial losses	9.0	9.1	18.1
Benefits paid	(2.2)	(2.7)	(4.9)
Acquisition of subsidiary	–	1.4	1.4
Exchange differences	–	(4.6)	(4.6)
At 31 December 2005	205.7	155.5	361.2
Defined benefit obligation of unfunded schemes	–	10.3	10.3
Defined benefit obligation of funded schemes	205.7	145.2	350.9
At 31 December 2005	205.7	155.5	361.2

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.

Notes to the consolidated financial statements (continued)

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:

	2006		
Plan assets and reimbursement rights	**UK schemes £'m**	**Overseas schemes £'m**	**All schemes £'m**
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)**
Acquisition 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**

	2005		
Plan assets and reimbursement rights	UK schemes £'m	Overseas schemes £'m	All schemes £'m
At 1 January 2005	116.5	141.2	257.7
Expected return on assets	8.4	7.0	15.4
Contributions by employer	7.9	4.6	12.5
Contributions from scheme members	1.2	0.2	1.4
Actuarial gains	17.5	12.6	30.1
Benefits paid	(2.2)	(2.7)	(4.9)
Exchange differences	–	(4.6)	(4.6)
At 31 December 2005	149.3	158.3	307.6
Plan assets	149.3	149.1	298.4
Reimbursement rights	–	9.2	9.2
At 31 December 2005	149.3	158.3	307.6

The fair value of plan assets at the balance sheet date is analysed below:

	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**

	2005		
	UK schemes £'m	Overseas schemes £'m	All schemes £'m
Equities	105.3	2.4	107.7
Government bonds	10.4	145.1	155.5
Corporate bonds	19.7	1.2	20.9
Property	12.6	–	12.6
Cash	1.3	0.4	1.7
	149.3	149.1	298.4

38. Retirement benefit schemes (continued)

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 £2.3 million at 31 December 2006 (2005: £2.2 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		
	2006	2005	2004
	£'m	£'m	£'m
Present value of defined benefit obligation	**(198.6)**	(205.7)	(181.9)
Fair value of plan assets	**171.5**	149.3	116.5
Deficit	**(27.1)**	(56.4)	(65.4)
Experience loss on plan liabilities	**(0.9)**	(1.0)	(4.4)
Experience gain on plan assets	**4.6**	17.5	4.2

	Overseas schemes		
	2006	2005	2004
	£'m	£'m	£'m
Present value of defined benefit obligation	**(166.0)**	(155.5)	(140.2)
Fair value of plan assets	**147.5**	149.1	132.8
Deficit	**(18.5)**	(6.4)	(7.4)
Experience gain/(loss) on plan liabilities	**2.7**	(0.9)	2.8
Experience (loss)/gain on plan assets	**(15.2)**	12.3	3.8

The group expects to contribute approximately £17.5 million (2005: £15.0 million) to defined benefit plans in 2007, of which £13.2 million (2005: £10.9 million) relates to UK schemes and £4.3 million (2005: £4.1 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**	**(36.1)**	**0.5**	**40.9**
Rate of inflation	**0.5**	**20.3**	**0.5**	**(18.2)**
Real rate of increase in salaries	**1.0**	**20.9**	**1.0**	**(18.2)**
1 year increase/decrease to life expectancy	**–**	**9.0**	**–**	**(9.2)**

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 55 to 65.

	2006	2005
	£'m	£'m
Short-term employee benefits	**9.6**	6.0
Post-employment benefits	**0.8**	0.8
Share-based payment	**3.9**	1.5
	14.3	8.3

The amount for share-based payment is that calculated in accordance with IFRS 2 'Share-based Payment'.

Notes to the consolidated financial statements (continued)

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:

	2006		2005	
Future minimum lease payments payable	**Land and buildings £'m**	**Other £'m**	Land and buildings £'m	Other £'m
Within one year	**78.6**	**59.5**	48.1	35.6
Between two and five years	**217.5**	**71.1**	156.1	48.2
After five years	**196.0**	**–**	156.2	1.7
	492.1	**130.6**	360.4	85.5

The expense recognised in the income statement for payments under non-cancellable operating leases for the year ended 31 December 2006 was £108.9 million (2005: £92.1 million). At 31 December 2006, the total future minimum sub-lease payments expected to be received under non-cancellable sub-leases were £29.6 million (2005: £29.0 million).

Capital expenditure commitments

	2006		2005	
	Group £'m	**Associates £'m**	Group £'m	Associates £'m
Contracted at the balance sheet date	**0.1**	**–**	0.4	–

41. Contingent liabilities

The group has contingent liabilities arising during the ordinary course of business from which it is anticipated that no material loss will arise.

42. Event after the balance sheet date

On 20 February 2007, the group announced the sale of Telecoms Products for £265 million to an investment consortium led by Atlantic Bridge Ventures. The transaction reflects the group's strategic focus on developing as a major international IT and business services company. The transaction is subject to the necessary employee consultation and regulatory approval. Subject to these conditions being met, the group expects to return approximately £130 million of the net proceeds to shareholders via a share buyback programme. The remaining net proceeds will be used to reduce debt and to fund the buyout of some existing minority interests.

The group will provide transition services through 2007 to support the operations of the Telecoms Products business. A loan of £15 million, representing the cash in the business on 31 December 2006, will be provided to fund working capital and is repayable two years from legal completion. The loan will bear interest on a commercial basis after the first six months.

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 2006, 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 2006.

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 report to you whether in our opinion the information given in the report of the directors is consistent with the parent company financial statements. The information given in the report of the 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 the 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 2006;
- 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 the directors is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 March 2007

Company balance sheet

31 December 2006

	Note	2006 £'m	2005 £'m
Fixed assets			
Investments	V	**1,486.0**	1,227.0
Current assets			
Debtors: amounts due within one year	VI	**388.6**	368.3
Cash at bank and in hand		**2.5**	2.7
		391.1	371.0
Creditors – amounts falling due within one year	VII	**(284.7)**	(289.6)
Net current assets		**106.4**	81.4
Total assets less current liabilities		**1,592.4**	1,308.4
Creditors – amounts falling due after more than one year	VIII	**(175.1)**	–
Net assets		**1,417.3**	1,308.4
Capital and reserves			
Called-up equity share capital	X	**153.6**	114.6
Share premium account	XI	**1,097.0**	1,084.8
Profit and loss account	XI	**143.4**	85.7
Other reserves	XI	**23.3**	23.3
Equity shareholders' funds	XII	**1,417.3**	1,308.4

The company financial statements on pages 110 to 120 were approved by the Board of directors on 29 March 2007 and were signed on its behalf by:

M P Read
S Keating
Directors

29 March 2007

Notes to the company financial statements

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 FRS 25 para 3(c)(b) 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.

Notes to the company financial statements (continued)

I. Accounting policies (continued)

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 schemes, 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.

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 £117.8 million (2005: £86.7 million), which included a foreign exchange loss of £0.8 million (2005: £nil).

III. Employees and directors
Staff costs for the year amounted to:

	2006 £'m	2005 £'m
Salaries and other short-term employee benefits	**4.4**	2.8
Social security costs	**0.6**	0.3
Pension costs	**0.3**	0.4
Share-based payments (note XIII)	**1.1**	0.8
	6.4	4.3

The average monthly number of employees, including directors, during the year ended 31 December 2006 was 15 (2005: 14). The number of employees including directors, at 31 December 2006, based in the UK was 11 (2005: 11), 3 (2005: 3) were based in the Netherlands and 1 (2005: 1) was based in France. For further information about the directors of the company, refer to the directors' biographies on pages 34 to 35. For details of directors' emoluments and share interests refer to the report of the Remuneration Committee on pages 55 to 65.

IV. Dividends
The directors are proposing a final dividend in respect of the year ended 31 December 2006 of 3.40 pence per share, which would reduce shareholders' funds by approximately £51.7 million. The proposed dividend is subject to approval at the annual general meeting on 24 May 2007 and has not been recognised as a liability in these financial statements. The final dividend will be paid on 25 May 2007.

The amounts recognised as distributions to equity holders were as follows:

	2006 p/share	2005 p/share	**2006 £'m**	2005 £'m
Interim dividend, relating to 2006/2005	**2.20**	2.11	**24.9**	17.7
Final dividend, relating to 2005/2004	**3.20**	3.08	**36.2**	25.8
	5.40	5.19	**61.1**	43.5

Dividends payable to employee share ownership trusts are excluded from the amounts recognised as distributions in the table above.

V. Investments

	2006 £'m	2005 £'m
Subsidiary undertakings	**1,486.0**	1,017.3
Associate	**–**	209.7
	1,486.0	1,227.0

V. Investments (continued)

Investments in subsidiary undertakings

Cost	Shares £'m	Loans £'m	Total £'m
At 1 January 2006	224.9	798.7	1,023.6
Additions	666.7	61.7	728.4
Disposals	(245.8)	(18.7)	(264.5)
Foreign exchange	–	4.8	4.8
At 31 December 2006	**645.8**	**846.5**	**1,492.3**
Impairments			
At 1 January 2006	(6.3)	–	(6.3)
Impairment during the year	–	–	–
At 31 December 2006	**(6.3)**	**–**	**(6.3)**
Net book value			
At 31 December 2006	**639.5**	**846.5**	**1,486.0**
At 31 December 2005	218.6	798.7	1,017.3

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 2006 will be annexed to the company's next annual return. At 31 December 2006, 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
CMG UK Limited*
LogicaCMG Wireless Networks Limited

Incorporated in the Netherlands:
LogicaCMG Nederland BV*
LogicaCMG BV*
LogicaCMG Business Process Outsourcing BV*
LogicaCMG Wireless Networks BV*

Incorporated in Germany:
LogicaCMG GmbH & Co KG*
Unilog Management GmbH*
Unilog Avinci GmbH*

Incorporated in France:
LogicaCMG SAS*
Unilog SA*

Incorporated in Belgium:
LogicaCMG NV/SA*

Incorporated in Portugal:
Edinfor – Sistemas Informáticos SA*†

Incorporated in Ireland:
LogicaCMG Limited*

Incorporated in Jersey:
LogicaCMG (Jersey) Limited

Incorporated in Sweden
WM-data AB*
WM-data Sverige AB*
WM-data Infra Solutions AB*

Incorporated in Norway
WM-data AS*

Incorporated in Finland
WM-data OY*

Incorporated in Denmark
WM-data Danmark AS*

Incorporated in Australia:
LogicaCMG Pty Limited*

Incorporated in the United States:
LogicaCMG Inc*

Incorporated in India:
LogicaCMG Private Limited*

Incorporated in the Czech Republic:
LogicaCMG sro*

*Subsidiaries not directly held by the company.
†60% holding.

Investment in associate

	£'m
At 1 January 2006	209.7
Transfer to subsidiary undertaking	(209.7)
At 31 December 2006	**–**

On 11 January 2006, the company reached an agreement to dispose of its investment in Unilog S.A. to another LogicaCMG group company. The consideration for the sale was satisfied by the allotment of new shares from the group company with a value of £205.0 million and a loan of £4.7 million.

Notes to the company financial statements (continued)

VI. Debtors

	2006 £'m	2005 £'m
Amounts due from subsidiary undertakings	**381.9**	356.6
Deferred tax asset	**6.4**	2.3
Corporation tax recoverable	**0.1**	9.4
Other debtors	**0.2**	–
	388.6	368.3

The directors estimate that the carrying value of financial assets within debtors approximated their fair value.

VII. Creditors

	2006 £'m	2005 £'m
Amounts falling due within one year		
Amounts due to subsidiary undertakings	**267.2**	260.4
Social security and other taxes	**3.5**	0.8
Accruals and other creditors	**11.8**	9.3
Other financial liabilities	**2.2**	19.1
	284.7	289.6

Other financial liabilities of £2.2 million (£19.1 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 26 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:

	2006	2005
Share price on measurement date	**£1.86**	£1.77
Exercise price	**£3.24**	£3.24
Expected volatility (%)	**31**	56
Expected life (years)	**1.7**	2.7
Risk-free rate (%)	**3.9**	2.9
Dividend yield (%)	**3.9**	2.9

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.

VIII. Creditors – amounts falling due after more than one year

	2006 £'m	2005 £'m
Bank loans	**175.1**	–

At 31 December 2006, 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 2006, SEK292 million (£22 million) was drawn under the facility and carried an interest rate of 0.95% over LIBOR.
- a SEK2,058 million (£154 million) term loan maturing on 20 August 2008. The facility was entered into on 20 August 2006 and was made available solely for the purpose of the acquisition of shares in WM-data and payment of associated transaction costs. At 31 December 2006, the facility was drawn down in full and carried an interest rate of 0.95% over LIBOR.

The obligations of the borrowers under the £330 million bank loan are guaranteed by the principal UK and Dutch trading subsidiaries, LogicaCMG UK Limited and LogicaCMG Nederland B.V. The SEK2,058 million bank loan is guaranteed by LogicaCMG UK Limited.

IX. Deferred tax

The movement on the deferred tax asset during the year was as follows:

	£'m
At 1 January 2006	2.3
Credit to the profit and loss account	4.1
At 31 December 2006	**6.4**

At 31 December, deferred tax was recognised as follows:

	2006 £'m	2005 £'m
Other financial liabilities	**6.4**	2.2
Share-based payment arrangements	**–**	0.1
	6.4	2.3

X. Share capital

Authorised	**2006 £'m**	2005 £'m
2,250,000,000 (2005: 1,750,000,000) ordinary shares of 10 pence each	**225.0**	175.0

	2006		2005	
Alloted, called-up and fully paid	**Number**	**£'m**	Number	£'m
At 1 January	**1,146,238,652**	**114.6**	750,915,581	75.1
Allotted under share option schemes	**2,595,389**	**0.3**	255,221	–
Allotted to acquire WM-data shares	**377,848,632**	**37.8**	–	–
Allotted to acquire WM-data convertible debentures	**9,015,809**	**0.9**	–	–
Allotted to acquire associate interest in Unilog	**–**	**–**	19,572,703	2.0
Rights issue	**–**	**–**	375,495,147	37.5
At 31 December	**1,535,698,482**	**153.6**	1,146,238,652	114.6

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. The authorised share capital was increased by 500,000,000 ordinary shares at the Extraordinary General Meeting on 2 October 2006.

On 13 October 2006 and 24 October 2006, the company issued 337,503,074 and 40,345,558 shares respectively to acquire a 95.33% economic interest in WM-data's equity share capital. On the same dates, the company issued 8,318,096 and 697,713 shares to acquire a 96.48% holding in WM-data convertible debentures.

During the year, 2,595,389 new ordinary shares, with a nominal value of £259,539, were issued under employee share schemes as follows:

Year of grant of option	**Exercise price p/share**	Number exercised
1996	**146.0**	64,018
1997	**134.0**	36,343
2001 Unilog options	**165.1**	911,699
2002	**107.2**	1,117,630
2002	**80.9**	98,793
2003	**83.5**	255,981
2005	**159.1**	110,925

During the year, 2,515,071 options were granted over un-issued and existing shares under employee share option schemes of which 2,437,270 options were granted at a price of 193 pence and the remainder at 190 pence, and are exercisable from 2009 to 2013. Options granted under SAYE schemes and discretionary options were granted at market price. Of the options granted during the year, 205,000 options granted at 193 pence only become exercisable in full if the growth in the group's adjusted earnings per share (see note 17 of the consolidated financial statements) over the relevant three-year performance period exceeds the growth in the UK Retail Prices Index over that period by an average of at least 7% per annum.

During the year, awards were made over 169,766 shares under the Employee Equity Partnership Plan ('EmEPP'), 544,440 shares under the Executive Equity Participation Plan 2006 ('ExEPP 2006'), 1,790,000 shares under the Unilog Management Incentive and 6,583,516 shares under the Long Term Incentive Plan ('LTIP'). Refer to note XIII for further information on the company's share schemes.

Notes to the company financial statements (continued)

X. Share capital (continued)

At 31 December 2006, there were rights to the allotment of 42,124,367 shares under employee share schemes at prices ranging from 81 pence to 2,288 pence and exercisable between 2007 and 2014. At 31 December 2005, there were rights to the allotment of 40,479,005 shares under employee share schemes at prices ranging from 81 pence to 2,355 pence, exercisable between 2006 and 2014.

The company holds treasury shares in discretionary trusts which were set up for the benefit of LogicaCMG 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 schemes, long-term bonus scheme and equity partnership plans.

At 31 December 2006, the employee trusts owned 15,588,650 shares (2005: 15,741,068) with a nominal value of £1.6 million (2005: £1.6 million). Of this holding, 5,014,486 shares were under option to employees (2005: 5,209,566) and 1,285,625 were held for the equity partnership plans (2005: 831,479).

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 2006, the nominal amount payable to both trusts was 0.001 pence per share. Waiver of dividends payable during the year amounted to £0.8 million (2005: £0.8 million). The market value of the shares owned by employee trusts, based on the mid-market price at 31 December 2006 was £29.0 million (2005: £27.9 million).

XI. Capital and reserves

	Share capital £'m	Share premium account £'m	Profit and loss account £'m	Treasury shares £'m	Special reserve £'m	Total £'m
At 1 January 2005	75.1	707.3	77.7	(35.9)	23.3	847.5
Net profit for the year	–	–	86.7	–	–	86.7
Sale of nil paid rights	–	–	–	1.9	–	1.9
Purchase of own shares	–	–	–	(1.9)	–	(1.9)
Shares issued, net of expenses	39.5	377.5	–	–	–	417.0
Dividends paid	–	–	(43.5)	–	–	(43.5)
Share-based payment	–	–	0.7	–	–	0.7
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 31 December 2006	**153.6**	**1,097.0**	**179.3**	**(35.9)**	**23.3**	**1,417.3**

The company issued 377,848,632 new ordinary shares during October 2006 to acquire a 95.33% equity interest in WM-data. In respect of the issuance of those shares, the company has applied Section 131 of the Act. Section 131 of the Act is applicable where a purchaser company acquires at least a 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. When applicable, the section requires 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 shares it issued to acquire WM-data. In the consolidated balance sheet, a merger reserve of £617.1 million has been recognised, representing the excess of the fair value over the nominal value of shares issued, as disclosed in note 32 of the consolidated financial statements.

During the year ended 31 December 2006, the share premium account was reduced by £5.6 million of expenses related to the issuance of new ordinary shares (2005: £13.1 million).

XII. Reconciliation of movements in shareholders' funds

	2006 £'m	2005 £'m
Profit for the financial year	**117.8**	86.7
Dividends paid	**(61.1)**	(43.5)
	56.7	43.2
Shares issued during the year, net of expenses	**51.2**	417.0
Other movements in reserves	**1.0**	0.7
Net increase in shareholders' funds for the year	**108.9**	460.9
Shareholders' funds at the beginning of the year	**1,308.4**	873.7
Adoption of FRS 25 and FRS 26	**–**	(26.2)
Shareholders' funds at the end of the year	**1,417.3**	1,308.4

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 scheme, 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 relevant to the company's employees and directors 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 conditions 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 (i.e. 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 LogicaCMG 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 LogicaCMG 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 Scheme

The group operates a savings-related share option scheme 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 the day prior to 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 scheme 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 condition having been met. The performance condition in respect of the ExEPP 2006 has the same criteria as the company's LTIP performance condition 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 3% per annum in each year of the 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 performance conditions are met in only one or two years out of 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.

Notes to the company financial statements (continued)

XIII. Share-based payment (continued)

Executive Share Option Plan 2006

At the company's annual general meeting in May 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 ten 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 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; however, option grants in 2005 and 2006 have a four-year exercise period. Retesting of performance conditions may be carried out twice for 2003 option grants, once for 2004 option grants and no retesting is permitted on grants made 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:

	2006		
	Share options		Share awards
	Number of shares	Weighted average exercise 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

	2005		
	Share options		Share awards
	Number of shares	Weighted average exercise price £	Number of shares
Outstanding at 1 January 2005	4,316,726	3.86	54,285
Granted	1,200,000	1.81	–
Exercised	–	–	(8)
Forfeited	(4,286)	2.26	–
Expired	(2,690)	6.27	–
Outstanding at 9 October 2005	5,509,750	3.41	54,277
Impact of rights issue	758,693	(0.41)	7,474
Outstanding at 9 October 2005	6,268,443	3.00	61,751
Expired	(610)	5.51	–
Outstanding at 31 December 2005	6,267,833	3.00	61,751
Exercisable at 31 December 2005	1,130,466	3.11	15,362

XIII. Share-based payment (continued)

The exercise price and remaining contractual life of share options outstanding at the balance sheet date was as follows:

	2006		
Range of exercise prices	**Weighted average exercise price £**	**Weighted average remaining contractual life Years**	**Number of shares**
More than £1.00 and less than £2.00	**1.34**	**5.3**	**2,914,288**
More than £2.00 and less than £5.00	**2.77**	**4.6**	**2,381,392**
More than £5.00 and less than £10.00	**6.53**	**3.5**	**777,212**
More than £10.00	**16.26**	**3.8**	**199,095**
	3.00	**4.8**	**6,271,987**

	2005		
Range of exercise prices	Weighted average exercise price £	Weighted average remaining contractual life Years	Number of shares
More than £1.00 and less than £2.00	1.34	6.3	2,909,773
More than £2.00 and less than £5.00	2.77	5.6	2,380,617
More than £5.00 and less than £10.00	6.53	4.5	777,780
More than £10.00	16.26	4.8	199,663
	3.00	5.8	6,267,833

The fair value of share options and share awards granted in the 2006 and 2005 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:

	2006			2005
Weighted average assumption	**Sharesave Scheme**	**Long Term Incentive Plan**	**Executive Equity Partnership Plan**	Executive Share Option Scheme
Share price on date of grant	**£1.93**	**£1.70**	**£1.93**	£1.80
Exercise price	**£1.93**	**nil**	**nil**	£1.80
Share options/awards granted in the year	**6,790**	**1,065,867**	**153,014**	1,200,000
Vesting period (years)	**3.0**	**3.0**	**3.0**	3.0
Expected volatility (%)	**38.5**	**36.8**	**–**	59
Expected life (years)	**3.3**	**3.0**	**3.0**	Note 1
Risk-free rate (%)	**4.5**	**4.7**	**–**	4.6
Dividend yield (%)	**2.9**	**3.3**	**2.9**	3.2
Fair value per share option/award	**£0.50**	**£1.29**	**£1.76**	£0.77

[1]The assumed exercise behaviour of ESOS option holders for grants made in 2005 is 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 ten years, providing the options are in the money.

Notes to the company financial statements (continued)

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 scheme 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 7% per annum was assumed for calculating the share-based payment expense for the year ended 31 December 2006 (2005: 10%).

The company recognised a total expense in respect of equity-settled share-based payment arrangements of £1.0 million in the year ended 31 December 2006 (2005: £0.7 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 schemes are treated as such an arrangement for accounting purposes. The liability for cash-settled share-based social security payments at 31 December 2006 was £0.4 million (2005: £0.3 million). The movement in the liability resulted in an expense for the year ended 31 December 2006 of £0.1 million (2005: £0.1 million).

XIV. Contingent liabilities

The company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries. It has also provided guarantees to vendors in respect of the deferred element on acquisitions.

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 55 to 65. There were no other related party transactions during the current or prior year.

XVI. Events after the balance sheet

On 20 February 2007, the group announced the sale of Telecoms Products for £265 million to an investment consortium led by Atlantic Bridge Ventures. The transaction reflects the group's strategic focus on developing as a major international IT and business services company. The transaction is subject to the necessary employee consultation and regulatory approval. Subject to these conditions being met, the group expects to return approximately £130 million of the net proceeds to shareholders via a share buyback programme. The remaining net proceeds will be used to reduce debt and to fund the buyout of some existing minority interests.

The group will provide transition services through 2007 to support the operations of the Telecoms Products business. A loan of £15 million, representing the cash in the business on 31 December 2006, will be provided to fund working capital and is repayable two years from legal completion. The loan will bear interest on a commercial basis after the first six months.

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 €1.47 to £1 (2005: €1.46 to £1). The balance sheet has been calculated by converting the sterling figures to euros at the closing rate of €1.48 to £1 (2005: €1.46 to £1).

Euro translation of consolidated income statement

For the year ended 31 December 2006

	2006 €'m	Restated 2005 €'m
Continuing operations:		
Revenue	**3,917.8**	2,677.8
Net operating costs	**(3,688.8)**	(2,502.5)
Operating profit	**229.0**	175.3
Analysed as:		
Operating profit before exceptional items	**264.1**	176.2
Exceptional items	**(35.1)**	(0.9)
Operating profit	**229.0**	175.3
Finance costs	**(52.7)**	(35.3)
Finance income	**13.5**	11.0
Share of post-tax profits from associates	**0.4**	2.0
Profit before tax	**190.2**	153.0
Taxation	**(59.2)**	(52.6)
Profit for the year from continuing operations	**131.0**	100.4
Discontinued operation:		
Result from discontinued operation	**–**	–
Net profit for the year	**131.0**	100.4
Attributable to:		
Equity holders of the parent	**120.6**	96.1
Minority interests	**10.4**	4.3
	131.0	100.4
	p/share	p/share
Earnings per share from all operations		
– Basic	**9.9**	10.7
– Diluted	**9.7**	10.7

Euro translation of consolidated balance sheet

31 December 2006

See page 121 for basis of translation.

	2006 €'m	Restated 2005 €'m
Non-current assets		
Goodwill	**2,297.1**	562.7
Other intangible assets	**614.3**	36.9
Property, plant and equipment	**202.2**	149.7
Investments in associates	**8.9**	444.7
Financial assets	**14.9**	13.4
Retirement benefit assets	**27.7**	22.3
Deferred tax assets	**74.9**	52.6
	3,240.0	1,282.3
Current assets		
Inventories	**4.3**	3.5
Trade and other receivables	**1,583.9**	946.4
Current tax assets	**46.2**	31.0
Cash and cash equivalents	**262.4**	358.1
	1,896.8	1,339.0
Current liabilities		
Convertible debt	**(299.5)**	(299.3)
Other borrowings	**(49.0)**	(27.0)
Trade and other payables	**(1,311.9)**	(661.6)
Current tax liabilities	**(47.8)**	(20.7)
Provisions	**(30.8)**	(9.8)
	(1,739.0)	(1,018.4)
Net current assets	**157.8**	320.6
Total assets less current liabilities	**3,397.8**	1,602.9
Non-current liabilities		
Borrowings	**(738.4)**	(172.1)
Retirement benefit obligations	**(94.9)**	(113.7)
Deferred tax liabilities	**(243.3)**	(82.2)
Provisions	**(19.5)**	(12.1)
Other non-current liabilities	**(1.2)**	(1.5)
	(1,097.3)	(381.6)
Net assets	**2,300.5**	1,221.3
Equity		
Share capital	**227.3**	167.3
Share premium account	**1,623.6**	1,583.8
Other reserves	**406.1**	(554.9)
Total shareholders' equity	**2,257.0**	1,196.2
Minority interests	**43.5**	25.1
Total equity	**2,300.5**	1,221.3

Euro translation of consolidated cash flow statement

For the year ended 31 December 2006

See page 121 for basis of translation.

	2006 €'m	2005 €'m
Cash flows from operating activities		
Net cash inflow from trading operations	**368.1**	264.0
Cash outflow related to property reorganisation expense	**–**	(1.2)
Cash outflow related to restructuring and integration activities	**(49.4)**	(19.0)
Cash generated from operations	**318.7**	243.8
Finance costs paid	**(41.0)**	(29.5)
Income tax paid	**(56.6)**	(43.6)
Net cash inflow from operating activities	**221.1**	170.7
Cash flows from investing activities		
Finance income received	**8.2**	5.1
Proceeds on disposal of property, plant and equipment	**3.4**	15.5
Purchases of property, plant and equipment	**(46.8)**	(44.1)
Expenditure on intangible assets	**(28.8)**	(10.4)
Acquisition of subsidiaries, net of cash acquired	**(559.9)**	(54.3)
Acquisition of investment in an associate	**–**	(389.5)
Disposal of subsidiaries	**2.8**	–
Disposal of business	**–**	(1.6)
Net cash outflow from investing activities	**(621.1)**	(479.3)
Cash flows from financing activities		
Net (outflow)/proceeds from issue of new shares	**(2.9)**	571.1
Proceeds from sale of nil paid rights/treasury shares by ESOP trusts	**–**	2.8
Purchase of treasury shares by ESOP trusts	**–**	(2.8)
Proceeds from bank borrowings	**744.7**	354.5
Repayments of bank borrowings	**(330.8)**	(329.4)
Repayments of finance lease principal	**(3.1)**	(5.4)
Repayments of borrowings assumed in acquisitions	**(5.6)**	(16.5)
Proceeds from other borrowings	**0.6**	–
Repayments of other borrowings	**(0.6)**	(0.7)
Dividends paid to the company's shareholders	**(89.8)**	(63.5)
Dividends paid to minority interests	**(2.6)**	(1.3)
Net cash inflow from financing activities	**309.9**	508.8
Net (decrease)/increase in cash and cash equivalents	**(90.1)**	200.2
Cash and cash equivalents at the beginning of the year	**358.1**	150.3
Net (decrease)/increase in cash and cash equivalents	**(90.1)**	200.2
Effect of foreign exchange rates	**(5.6)**	7.6
Cash and cash equivalents at the end of the year	**262.4**	358.1

Five year summary

The five year financial summary below includes selected information on a calendar year basis, which has been subject to audit except for the year ended 31 December 2002. Information relating to 2002 is on an unaudited pro forma basis for Logica and CMG, which merged on 30 December 2002.

The amounts disclosed for the year ended 31 December 2003 and earlier periods are presented under UK generally accepted accounting principles ('UK GAAP') because it is not practicable to restate amounts for prior periods before to the group's date of transition to International Financial Reporting Standards ('IFRS') on 1 January 2004.

	UK GAAP[1]		IFRS		
	2002 £'m	2003 £'m	2004 £'m	2005 £'m	**2006 £'m**
Revenue	1,823.7	1,706.6	1,658.4	1,834.1	**2,665.2**
Operating profit before goodwill amortisation/ impairment and exceptional items	118.0	111.2	98.2	120.7	**179.7**
Goodwill amortisation/impairment and exceptional items	(845.4)	(132.5)	(19.6)	(0.6)	**(23.9)**
Share of post-tax profits from associates	–	–	–	1.4	**0.3**
Net finance costs payable	(6.5)	(11.7)	(14.9)	(16.7)	**(26.7)**
Profit/(loss) on ordinary activities before tax	(733.9)	(33.0)	63.7	104.8	**129.4**
Tax on profit/(loss) on ordinary activities	(20.3)	(10.7)	(28.8)	(36.0)	**(40.3)**
Profit/(loss) on ordinary activities after tax	(754.2)	(43.7)	34.9	68.8	**89.1**
Loss from discontinued operation	n/a	n/a	(9.7)	–	**–**
Minority interests	(0.8)	(2.4)	(0.6)	(3.0)	**(7.1)**
Profit/(loss) for the year attributable to ordinary shareholders	(755.0)	(46.1)	24.6	65.8	**82.0**
Closing number of employees	23,097	19,749	19,695	21,340	**40,483**
Turnover growth from continuing operations	(15%)	(6%)	(2%)	11%	**45%**
Adjusted operating margin[2]	6.5%	6.6%	5.9%	6.6%	**8.2%**
Adjusted basic earnings per share[3, 4]	9.3p	8.2p	6.4p	7.5p	**10.7p**
Dividends per share[3, 5]		5.01p	5.10p	5.31p	**5.6p**

[1]Under UK GAAP, the results of the discontinued operation are presented as a component of each line item in the profit and loss account. Under IFRS, the post-tax loss of the discontinued operation is shown as a single line item entitled 'Loss from discontinued operation'. Revenue from the discontinued operation in 2003 was £11.5 million (2002: £12.3 million).

[2]Under UK GAAP, the adjusted operating margin is from continuing operations before goodwill amortisation, restructuring and other exceptional items. Under IFRS, 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. In 2006, adjusted operating profit was £217.3 million (2005: £121.7 million) (2004: £98.2 million), which was before amortisation of £37.6 million (2005: £1.0 million) (2004: £nil) relating to the excluded intangible assets.

[3]Earnings per share and dividends per share have been restated for the bonus element of the rights issue that took place in November 2005.

[4]Adjusted basic earnings per share under UK GAAP represents basic earnings per share from continuing operations before goodwill amortisation and exceptional items. Adjusted basic earnings per share under IFRS is defined in note 17 to the consolidated financial statements.

[5]Dividends per share are presented according to the financial year to which they relate rather than the basis of recognition for accounting purposes. Dividends prior to the year ended 31 December 2003 are not presented because, due to the merger of Logica and CMG and the two groups' differing financial year-ends, it is not possible to present dividends per share for the combined LogicaCMG group.

Shareholder information

Financial calendar 2007

28 February
Preliminary results announced

24 April
Annual report and AGM notice posted to shareholders

25 April
Ex-dividend date

27 April
Share register closed (record date)

24 May
Annual general meeting 3.00pm
London Underwriting Centre
3 Minster Court
Mincing Lane
London EC3R 7DD

25 May
Final dividend paid to shareholders

29 May
Informative shareholders' meeting
The Netherlands

29 August
Interim results announced

19 September
Ex-dividend date

21 September
Share register closed (record date)

19 October
Interim dividend paid to shareholders

Shareholder information online

LogicaCMG's registrars are able to notify shareholders by email of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as LogicaCMG's interim and full-year results, Capita Registrars will notify you by email and you will be able to access, read and print documents at your own convenience. Notices of shareholder meetings and proxy forms will continue to be posted to you.

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 proxy card. This can also be obtained from 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 communication by contacting Capita Registrars by post or through the abovementioned website. If you wish to continue receiving shareholder information in the usual printed form, there is no need to take any action.

Registrars
Capita Registrars
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Fenay Bridge
Huddersfield
HD8 0LA
United Kingdom
www.capitaregistrars.com

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(from outside the UK: +44 20 8639 2157)
Fax: +44 (0) 1484 600 911

Information for investors
Information for investors is provided on the group's website and can be found at: www.logicacmg.com/investors

Investor enquiries

Enquiries can be directed via our website or by contacting our investor relations department.

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London NW1 2PL
Registered in England. No. 1631639.

A full list of LogicaCMG's offices worldwide can be found at **www.logicacmg.com/locations**

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Eni Norge

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Boden
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Borlänge
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Falun
Farsta
Gällivare
Gävle
Göteborg
Härnösand
Helsingborg
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Karlskrona
Karlstad
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Linköping
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Malmö – Baltzarsgaten
Mariestad
Nässjö
Norrköping
Örbero – Idrottsvägen
Örbero
Örnsköldsvik
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Östersund
Pajala
Skellefteå
Skövde
Söderhamn
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Glossary of Key Performance Indicators (KPIs)

Adjusted operating margin

Definition: 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.
Rationale: This measure is used to compare quality of earnings with those of our peers and to determine performance against our medium-term strategic objective of delivering adjusted operating margin of greater than 10% in our major geographies (UK, the Netherlands, France, and the Nordics).
Pages 27, 80

Book-to-bill

Definition: Orders booked in a period divided by revenues in the period.
Rationale: Provides visibility of future revenue. A book-to-bill above one means that the company continues to build good order backlog for future delivery.
Page 26

Balanced business profile with four significant European profit generators

Definition: 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.
Rationale: Strengthening our position in Europe means we now have four significant profit generators. A balanced business in which four profit generators account for at least 15% each, ensures less risk associated with negative developments in any single market.
Page 2

Balanced market sector profile

Definition: Revenue for each market sector within IT services (Financial Services, Energy and Utilities, Telecoms and Media, Industry, Distribution & Transport (IDT), Public Sector) as a percentage of group IT services revenue.
Rationale: A balanced market sector profile (with no sector accounting for less than 10% or more than 30%) ensures that group revenue is less susceptible to weakness 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.
Pages 10, 11, 27

Adjusted earnings per share (EPS)

Definition: 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.
Rationale: Directors' annual bonuses 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.
Pages 2, 27, 83, 84

Employee attrition

Definition: 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.
Rationale: 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 LogicaCMG. It is also a key measure of the satisfaction that employees get from working in LogicaCMG. 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.
Page 28

Employee satisfaction

Definition: A weighted mean score for key questions in the annual LogicaCMG 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 2007.
Rationale: Assuming the response rate remains unchanged, the weighted mean score is a measure of overall staff 'engagement' with LogicaCMG and the change in satisfaction from year to year.
Page 45

Cash conversion

Definition: The net cash inflow from trading operations divided by adjusted operating profit (see adjusted operating margin KPI).
Rationale: 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.
Page 33

Organic revenue growth in IT services

Definition: Percentage growth in IT services revenue in the current year compared to revenue on a like-for-like basis in the previous year (e.g. taking into account the impact of acquisitions, divestments and currency movements).
Rationale: Provides a measure of our ability to grow revenue within IT 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.
Pages 5, 27

Percentage of revenue from outsourcing

Definition: Revenue from outsourcing contracts as a percentage of group revenue.
Rationale: 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.
Pages 7, 27

For risk factors see page **54**.
For strategic objectives see pages **2 to 9**.
KPIs are identified throughout this report by the symbol .

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Releasing your potential

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