

Business review

09-61

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Financial highlights

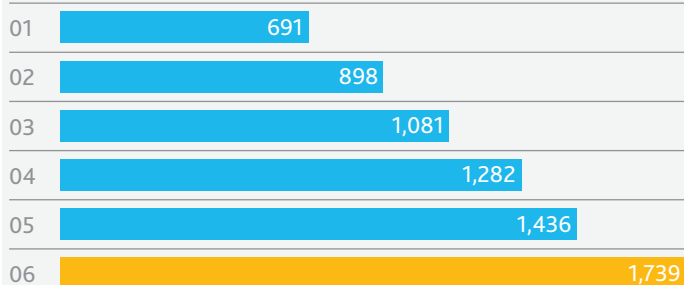
Capita has performed very strongly in 2006. We have secured record levels of new business, thereby strengthening our position as the UK's market leader in providing business process outsourcing services.

Our successes during 2006 and progress in early 2007 mean that the ingredients for a successful year are already in place.

Turnover (£m)

£1,739m

+21%

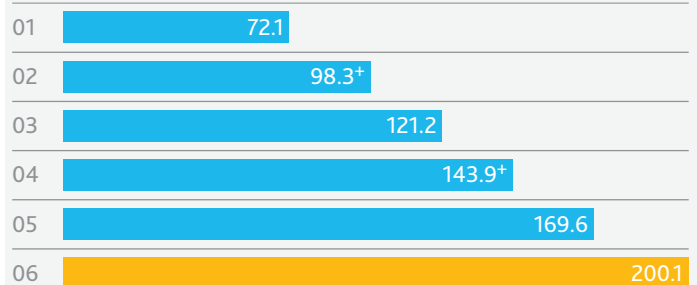


5 year compound growth 20%

Profit before tax, amortisation and impairment and after share based payment charge (£m)

£200.1m

+18%



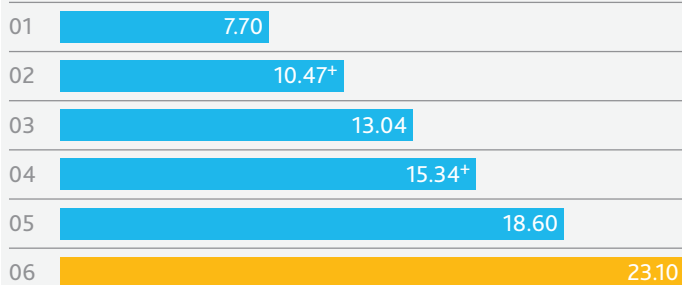
5 year compound growth 23%

⁺excluding exceptional items

Financial highlights

Earnings per share before amortisation and impairment and after share based payment charge (p)

23.10p
+24%



5 year compound growth 25%
*excluding exceptional items

Total dividend per share (p)

9.00p
+29%



5 year compound growth 32%

Chairman's introduction

Welcome

As the Group's new Non-Executive Chairman, appointed on 1 August 2006, I am delighted to welcome you to this year's Business Review and Annual Report and Accounts.

Capita has performed very strongly in 2006. We have secured record levels of new business, thereby strengthening our position as the UK's market leader in providing business process outsourcing (BPO) services to the public and private sectors.

Our performance in 2006

In the year ended 31 December 2006, turnover increased by 21% to £1,739m. Operating profit before amortisation and after share based payment charge rose by 23% to £225.1m and profit before taxation and amortisation and after share based payment charge increased by 18% to £200.1m. Earnings per share before amortisation and after share based payment charge grew by 24% to 23.1p. Operating cash flow rose by 20% to £279m.

The Board is recommending a final dividend of 6.3p per ordinary share making a total of 9.0p for the year, a 29% increase on 2005.

We returned a further £245m to shareholders through purchasing our own shares. In total, including the proposed final dividend, we will be returning £301m (2005: £96m) to shareholders in respect of the 2006 financial year.

Board changes

Rod Aldridge, Capita's founder and Chairman, retired from the Board on 31 July 2006. Rod played a major role in building and developing the Group for over 20 years and the Board and employees across Capita wish him every success with his new interests. A strong and dedicated Board and management team, focused on the needs of all our stakeholders, continues to lead and profitably grow the Group. The Board was further strengthened in the year with the appointments of Simon Pilling as an Executive Director on 1 August 2006, having served on Capita's Divisional Executive Board, and Bill Grimsey as Non-Executive Director with effect from 9 October 2006.

Valuing our people

The value that we have created for our stakeholders in Capita is a direct result of the competence and commitment that our employees give to the Group. The culture within Capita is a key differentiator from our competition. We have a stable and consistent management team, a low turnover of senior people and a tremendous spirit throughout the Group. I would like to thank everyone for the role they play in Capita's success. I also welcome the employees that have joined us since the beginning of 2006. We now employ 27,800 people in the UK, Ireland, the Channel Islands and India.

Future prospects

Capita enters 2007 with confidence. Our markets continue to generate opportunity, our sales prospects are exciting and our operational performance is consistently strong.

Our successes in 2006 and progress in early 2007 mean that the ingredients for a successful year are already in place. The Board anticipates delivering strong growth in 2007.



Eric Walters
Non-Executive Chairman



Chief Executive's overview

Strong performance

2006 has been another active and successful year, with record major sales wins and strong operational performance across the Group.

The market for BPO in the UK and Ireland continues to provide excellent growth opportunities. Our extensive infrastructure and capability provide us with a strong competitive edge across our markets and enable us to present strong propositions to clients.

Building value for shareholders

To ensure we are building value for shareholders, we focus on a number of key measures alongside profitability: operating margins, cash flow, capital expenditure, return on capital employed, gearing and economic profit. We also focus on maintaining a conservative but efficient capital structure. Collectively they form an integral part of building value for our shareholders on a consistent basis over the long term. We have set out our aims and performance regarding these disciplines on [pages 28-33](#).

Over the 10 years to 14 February 2007, the market capitalisation of the Group has increased from £360m to £4.1bn. The total shareholder return in this period has been 10.5 fold, equivalent to a 27% compound annual return.

Growing our business

We aim to generate profitable and sustainable growth both organically and through small to medium sized complementary acquisitions. Of the 21% increase in turnover in 2006, 16% was achieved through organic growth and the remaining 5% was derived through acquisitions.

Securing and renewing major contracts is an important component of our growth. Across the Group, we have over 20,000 customers and our retention rate is excellent. Our sales performance in 2006 was very strong. We secured 23 major new and extended contracts with an aggregate value of £1.37bn (2005: £1.14bn). [page 21](#)

2007 has started well with a total of £132m of major contracts won and extended in the first 8 weeks. We are also now in the position where we have no material contracts due for renewal in 2007 and 2008 and only 2 in 2009. [page 24](#)

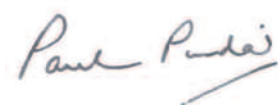
Our current bid pipeline stands at £2.6bn (February 2006: £2.2bn) and contains some exciting opportunities, particularly within the life and pensions and local government markets. Behind this is an active prospect list of opportunities which are yet to reach a shortlist stage. We have already secured strong revenue growth for 2007 and our efforts are now focused upon achieving a similar position for 2008.

Our businesses have developed well and grown across the year securing new and repeat business. We have also continued our strategy of expanding existing offerings and entering new market segments through acquiring small niche businesses. Our operational capabilities continue to grow, evidenced by the smooth running of both our major integrated contracts and our separate businesses. [pages 44-49](#)

Growth of our BPO offshore operation in India has accelerated, with the business doubling in size in the past 12 months. By 2009, we anticipate that we will have approaching 3,000 people based in India. Our offshore facilities are delivering significant savings, providing operational flexibility, raising service quality and increasing productivity. [page 35](#)

Our continuing focus

We remain enthused by the many opportunities that exist to develop the Group and we will continue to build long term value for our shareholders, clients and our employees.



Paul Pindar
Chief Executive



What do we do?

We deliver efficient, high quality administration and customer contact services that support and add value to our clients' operations.

By transforming the way services are delivered, increasing quality and driving down operating costs, we help our clients to meet their customers' needs and remain at the forefront of their marketplace.

We support clients across both the private and public sectors in the UK and Ireland, where the market for our services is buoyant and growing.

What do we do?

Providing essential services to our clients

We operate in and lead the market commonly known as the business process outsourcing (BPO) or professional support services market. Our core business is to provide efficient back office administration and front line customer services on behalf of our clients. This leaves them to focus on the core business drivers and strategies that position them as leaders in their markets.

we deliver these services	to these markets	through these divisions
→ Business process outsourcing (BPO)	→ Central government	→ Integrated Services
→ Customer services	→ Local government	→ Professional Services
→ Administration and support	→ Education	→ HR Solutions & Property Consultancy
→ Human resources	→ Transport	→ ICT & Advisory Services
→ Information and communications technology (ICT)	→ Health	→ Financial Services
→ Property consultancy	→ Life & pensions	→ Life & Pensions
→ Finance and treasury	→ Insurance	→ Insurance & Specialist Services
→ Consultancy	→ Financial services	
🔗 pages 58-61	→ Other private sector	🔗 pages 44-49
	🔗 pages 38-43	

For further details 🔗 www.capita.co.uk

What do we do?

Delivering real value to our clients

We help organisations across the public and private sectors to transform their services, operate more efficiently and meet their customers' changing needs. The examples below will give you a flavour of what we do.

DSG international

The leading European specialist retailer of consumer electronics transferred the running of its customer contact centre and technical support services to Capita. We have measurably improved the quality of services delivered, resulting in increased customer satisfaction and reduced costs of business.

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Birmingham City Council

The largest local government authority in Europe has established a long term partnership with Capita. Together we are creating a world class ICT framework and supporting the ambitious transformation of services for the people of Birmingham.

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The Children's Mutual

The children's saving specialist asked Capita to build and administer a new, cost effective service delivery platform for its new Child Trust Fund (CTF) product. By delivering a state of the art IT and administration platform in just 10 months, we met the launch deadline and established a highly efficient platform capable of supporting this CTF and other future charge capped products.

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What do we do?

Leading across a range of growing markets

We are the UK's market leader in providing BPO services.

Our unrivalled infrastructure and capability provide us with a **strong competitive edge across our markets** and enable us to present strong propositions to clients.

Competitor rankings UK BPO market*	Market share
1. Capita	21%
2. Vertex	8%
3. EDS	7%
4. Accenture	7%

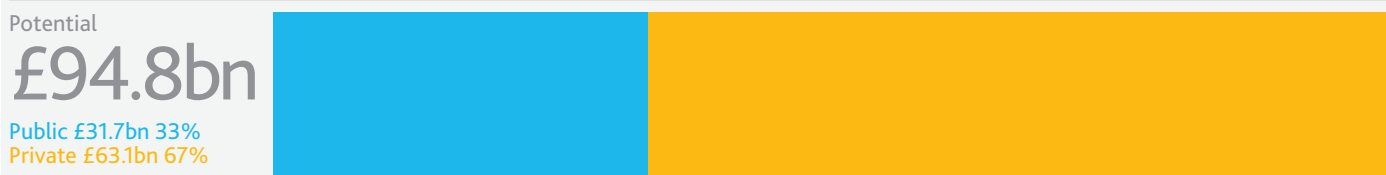
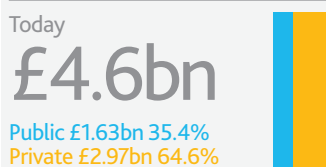
We focus on the UK and Ireland where there are significant opportunities for growth. A recent independent survey estimated the **market's potential at £94.8bn**, split 2:1 between private and public sectors respectively. In 2006, the total market for BPO was estimated at £4.6bn and is forecast to grow at 9.5% a year until 2010.*

We currently operate in 9 distinct markets where the drivers for seeking outsourced solutions and professional support services are strong.

We constantly **expand our offering in existing markets and broaden into complementary new market segments**. In 2006 our private/public sector split was 48%/52% (2005: 47%/53%). Over time, we expect to move closer to the overall market's 2:1 ratio but we will continue to pursue the most attractive opportunities irrespective of their market sector.

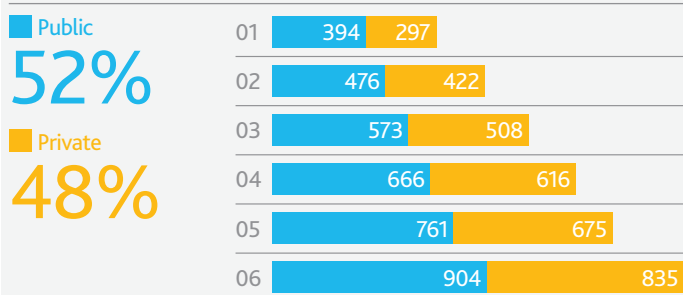
The majority of our markets contain a stable set of responsible competitors providing a healthy marketplace in which to bid. **New entrants to our markets face significant barriers to entry** as it takes time and scale to establish a strong presence.

Total UK BPO market p.a.* (£m)



Capita's public/private split by revenue (£m)

5 year compound growth: 18% public, 23% private



*Source: Ovum 2006

Our business strategy

In order to maintain Capita as a business that can meet the needs of all its stakeholders now and into the future, we have created a clear, straightforward business strategy which is delivered by a flexible, pragmatic divisional operating structure.

Our business strategy

Our strategic focus is on 4 core elements:

1) Generating profitable growth

both organically and through acquisition

- securing long term, recurring revenues from new and existing clients
- acquiring small to medium sized businesses that expand our existing capability and take us into new areas.

2) Managing growth well

through strong leadership and responsible business practices

- maintaining a robust management and operating structure, led by a stable, inspiring team
- working to clear financial objectives with strong financial controls and effective governance.

3) Targeting the fast growing market

for BPO and professional support services in the UK and Ireland

- seeking the best opportunities across both the public and private sectors
- focusing on our 9 chosen market sectors.

4) Maintaining performance across our divisions

by consistently delivering service excellence and sharing Group resources and scale benefits

- aligning each business within our divisions with the Group's overall objectives and strategy
- maintaining a simple, pragmatic divisional structure to ensure the best resources are deployed Group-wide.

Our goal: to deliver value to all our stakeholders

Our goal remains straightforward, to continue to develop Capita as a long term, sustainable business which can deliver value to all our stakeholders:

- Achieving a fair return for shareholders
- Delivering operational excellence and added value for all clients
- Creating a supportive, rewarding and inspiring environment for employees
- Developing mutually beneficial relationships with suppliers.

Our business strategy

1) How do we generate profitable growth?

In two ways:

- a) We concentrate on organic growth, winning business from new and existing customers in the UK and Ireland.
- b) We supplement this by acquiring businesses that broaden our skills base and extend our market reach.

As a result, we have grown consistently since we started – initially delivering support services to government, and now operating across both public and private sectors.

Our business strategy [How do we generate profitable growth?](#)

a) We drive profitable organic growth

We aim to secure high quality, recurring revenues:

- The majority of this revenue is generated from long term contracts that deliver multiple, integrated support services. The length of contracts has consistently increased and now averages 9 years.
- We also focus on single service business that rolls over annually, has a high repeat rate or is secured under medium to long term contracts of 2 to 7 years.

The combination of long term contracts and highly recurring business provides strong visibility of future revenues.

Developing new business opportunities

Our approach to securing business varies according to the size and complexity of the opportunity:

- Our major sales team pursues complex, long term contracts worth over £10m. It can draw on the resources of the whole Group to design integrated solutions tailored to individual client requirements.
- Sales teams in each business unit pursue contracts usually focused on a single service. Where these are worth over £10m, the major sales team may provide extra support.

Major new contracts and extensions secured in 2006: £1.37bn (2005: £1.14bn)

Client		Value (£m)	Term (years)	Division
South Oxfordshire and Vale of White Horse District Councils	New	20	7	Professional Services
BBC HR	New	132	10	HR Solutions & Property Consultancy
DTI	Re-award	120	3	Insurance & Specialist Services
DSG international	New	120	7	Insurance & Specialist Services
Birmingham City Council	Enlarged	+51 (new total 475)	10	ICT & Advisory Services
Northern Ireland Civil Service	New	100	15	HR Solutions & Property Consultancy
SIPPs	New	100	5	Life & Pensions
SMMT	Re-award	12	5.5	ICT & Advisory Services
Birmingham City Council	New	88	3	ICT & Advisory Services
Rossendale Borough Council	New	13	10	Professional Services
Westminster City Council	Re-award	50	7	Professional Services
Prudential	New	40	3	Life & Pensions
Transport for London Congestion Charging Scheme	Extension	90	1.8	Integrated Services
Transport for London Low Emissions Zone	New	14	3	Integrated Services
Swindon Borough Council	New	140 (now signed at 243)	15	Professional Services
Co-operative Insurance*	New	250	10	Life & Pensions
BT	Extension	13.5	9	Insurance & Specialist Services
Cambridgeshire County Council*	New	15	7-10	HR Solutions & Property Consultancy

*subject to contract

Total value: £1.37bn (2005: £1.14bn)

Our business strategy [How do we generate profitable growth?](#)

Our long term bid success rate is 1 in 3 and our current rate is 1 in 2.

Identifying opportunities

In the UK, public sector contracts are subject to defined procurement processes. EU policy requires 'fair and open competition', and opportunities are formally advertised or notified. In the private sector, we actively seek out organisations where we see opportunities to generate real business value. We generally identify these through business intelligence and relationships, and the procurement process is determined by each individual customer.

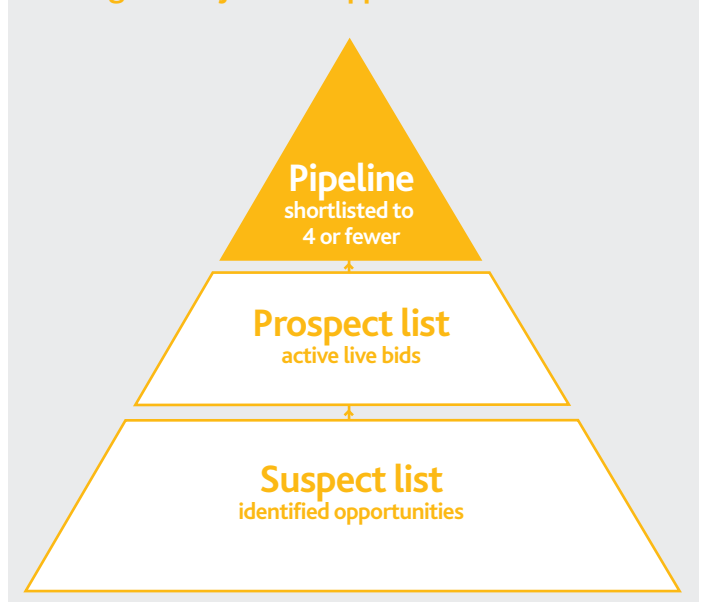
Tracking success

One measure of our success in finding and developing significant opportunities is the [bid pipeline](#). It contains contracts of £10m or above, where we have been shortlisted to the last 4 or fewer: all bids are capped at £500m to prevent very large individual contracts from distorting the total.

Because our long term bid success rate is 1 in 3 and our current rate is 1 in 2, the sales pipeline is a useful indicator of future sales growth. We report the pipeline in our full and half year results, providing a snapshot of the size and progress of bids. Once a bidding process is completed, the contract moves out of the pipeline which is replenished as other bids progress to a shortlist stage.

The bid pipeline is backed by an active '[prospect list](#)' of opportunities where we are working on bids which are yet to reach a shortlist or final bidding stage. In turn, this is backed by a list of '[suspects](#)' and relationships which we are nurturing to generate future bid opportunities. In February 2007, our bid pipeline was £2.6bn (February 2006: £2.2bn).

Tracking our major sales opportunities



Our business strategy [How do we generate profitable growth?](#)

Addressing opportunities selectively

Major bids are costly, in time and resources: public sector procurement processes can take up to 2 years to complete. We are highly selective, only bidding where we can see clear benefits to both the client and the Group. Critical factors include:

- a defined bid process with clear decision criteria, set by clients with whom we can build a strong relationship
- a fit with our core competencies of service transformation
- limited requirement for capital investment, unless there is a real value proposition for the Group
- fair risk/reward balance
- acceptable contractual obligations.

Responding to client requirements

Just as we are selective with the opportunities we pursue, our clients are highly selective when engaging an outsourcing partner. Each client looks for a unique set of services and deliverables. Most, however, are looking for a partner with a track record of:

- service excellence
- service improvement
- cost savings
- process efficiencies
- innovation
- depth and flexibility of expert resources
- added value services
- market expertise
- financial strength and stability.

Securing appropriate pricing and contract terms

Our major contracts are long term commitments. On average they last over 9 years, so we need to get our pricing and contract terms right.

As part of the bid process we make detailed risk assessments of the contract requirements and our service delivery proposals. We build in flexibility and make provision for changing needs where possible. Our extensive experience in measuring and accounting for risks is a valuable benefit. Where we identify risks we build them into our model and price accordingly. We will not accept responsibility for risk that is outside our control.

To ensure prudent pricing, we clearly separate responsibilities. Sales teams are responsible for client relationships and sales support teams develop pricing and risk models. On all major bids, pricing is agreed by the Group Board.

Our business strategy [How do we generate profitable growth?](#)

Retaining the business we win

The most efficient way to win business is to renew existing contracts.

We are intent on delivering value to clients so that they want to extend their relationships with us. As a result, we successfully renew the great majority of contracts when they come up for renewal. [In our 23 year history we have only failed to renew 2 of our material contracts \(defined as generating more than 1% of the previous year's revenue\).](#) We have no material rebids until 2009.

Impending rebids of existing material contracts*

2007	→	None
2008	→	None
2009	→	TfL: Congestion Charging Scheme £56m per annum → DSG international plc (Sheffield) £18m per annum
2010	→	DfES: National Strategies £35m per annum
2011	→	None

*Defined as generating more than 1% of previous year's revenue

We share thinking and expertise across our operations to ensure that we can provide clients with the highest standards of service. [By delivering operational excellence and added value for our clients and their customers we achieve high client retention rates.](#) We also create a pool of positive referees who provide powerful support to new sales initiatives.

We aim not just to keep existing relationships, but to grow them. Many of our clients have awarded us additional work, once they have experienced the quality service and added value we deliver. Not only do we broaden existing contracts but we are also successful in winning multiple contracts from our clients.

We agree detailed service standards and key performance indicators to measure the improvement in service to clients and their customers. On our largest contracts, strategic partnership boards help both parties understand each other's needs better. As a result, clients find that outsourcing gives them more control over support operations, not less.

Responding to competitive pressures

We believe stable, healthy competition stimulates innovation and promotes choice. Because our range of services is so wide, we face a variety of different competitors in our 9 chosen markets: this reduces our exposure to competition in any one area.

There are [significant barriers to entry](#) for new participants in all our markets: our own knowledge base and geographical and technical infrastructure have taken over 20 years to build. When clients outsource large scale functions or services they want to partner with an organisation with a [solid financial and performance record](#). Our strong balance sheet and cash flow provide reassurance that their service is in safe hands. Our [proven record of ethical and socially responsible behaviour and strong governance](#) is also a competitive strength.

Priorities for 2007: generating profitable growth

Organic growth

- Continue to expand bid suspect and prospect lists to feed pipeline
- Continue to address opportunities selectively
- Maintain bid process disciplines to secure appropriate pricing and contract terms
- Increase focus on developing existing customer relationships
- Maintain high customer service levels.

Our business strategy [How do we generate profitable growth?](#)

b) We stimulate growth through acquisition

Main acquisitions and investments in 2006

Company	Service	Division
Webline	Software services	Professional Services
Two Ten	Response management	ICT & Advisory Services
DLA Direct*	Legal services	Insurance & Specialist Services
Sinclair Henderson	Fund administration	Financial Services
Synaptic Systems	Software services	Professional Services
Stirling Trustees	Trustee services	Financial Services
*investment		

Total spent on 11 acquisitions and investments in 2006: £48m (2005: £88m, 11 acquisitions)

Small to medium sized acquisitions help us to enter new markets where we can grow organically, strengthen existing market positions and build economies of scale, or access a new customer base. For example, we entered the private sector in 2000 with the acquisition of IRG Plc and swiftly built significant capabilities through a mixture of acquisitions and contract wins. Private sector business now represents 48% of our annual turnover.

We judge all potential acquisitions against strict criteria, seeking targets that:

- have operations and customers in the UK and/or Ireland
- fit with our strategy and core competencies
- generate sustainable, quality revenue
- are attractively priced, with scope to add value for shareholders
- provide an opportunity to acquire without competition.

We have substantial experience of integrating acquired businesses and achieving synergies with our existing operations. Stringent due diligence, before and after acquisition, enables us to set clear targets for growth, integration benefits and profit. A dedicated project team manages the transition, rigorously applying the processes we have developed to bring financial procedures, ICT, HR, legal, compliance and marketing quickly into line with our standards, using Group systems and resources where appropriate.

Priorities for 2007: generating profitable growth

Acquisitions

- Select acquisitions that complement or grow our business offering and market reach
- Continue to apply rigorous criteria when selecting and agreeing purchase price
- Continue to follow and enhance integration procedures.

Our business strategy

2) How do we manage and measure our growth?

Growth needs to be steady and controlled. We are committed to growing the business in a transparent and socially responsible way, ensuring that it delivers a healthy return to investors and is sustainable for all stakeholders over the long term.

So our growth is underpinned by:

-
- a) Strong structure and control

 - b) Clear financial KPIs

 - c) Resource and operational controls

 - d) Careful risk management.

Our business strategy How do we manage and measure our growth?

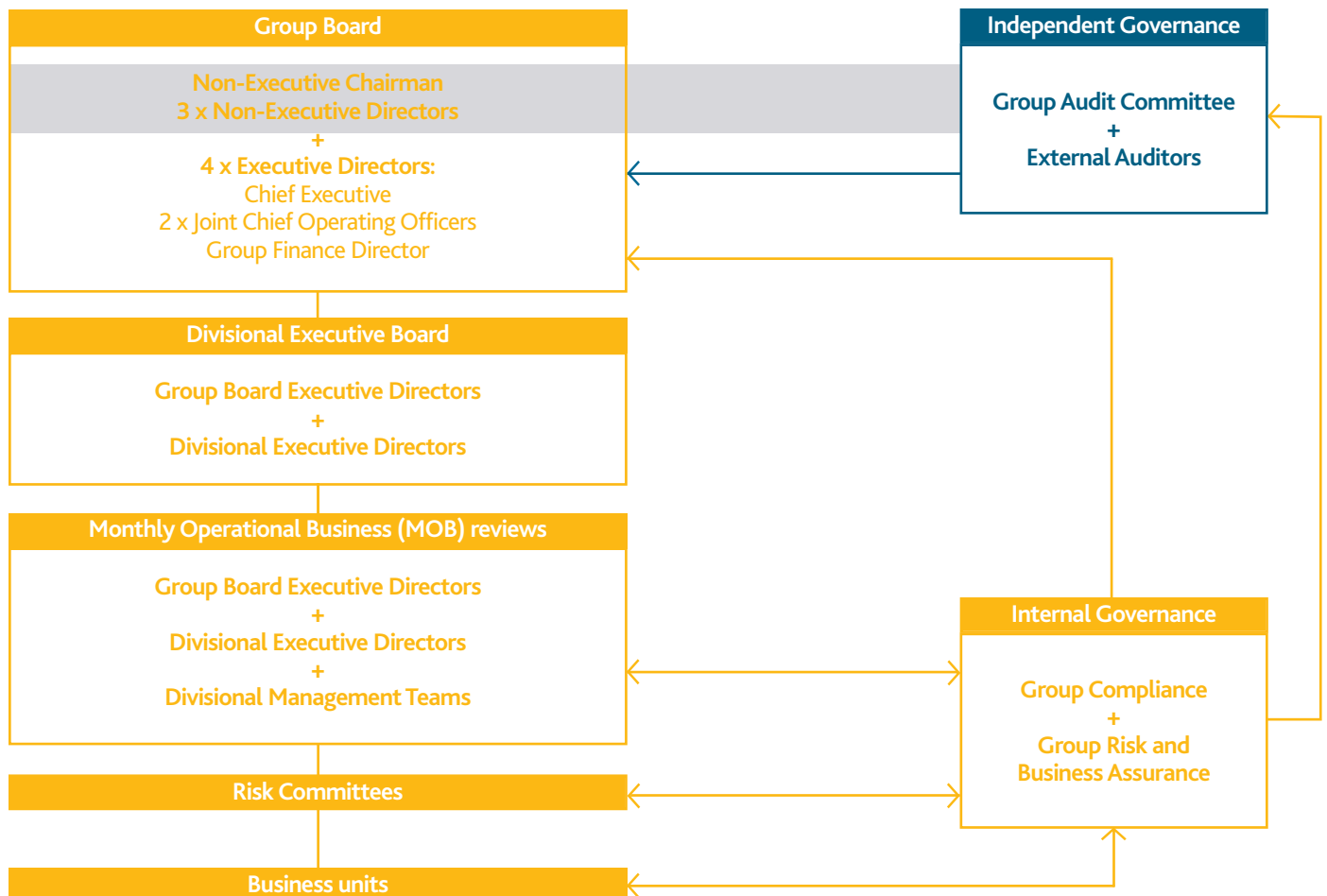
a) Strong structure and control

Our management structure and business reporting process promotes accountability and knowledge sharing across the Group, ensuring that management is responsive to issues and trends within the business and the wider marketplace.

- The **Group Board** is responsible for establishing, maintaining and reviewing the Group's growth strategy, financial performance and systems of internal control
- The **Divisional Executive Board** sets, communicates and monitors the application of Group-wide policies, procedures and standards
- The **Divisional Executive Directors** are responsible for the development and performance of their divisional businesses. They work with and delegate responsibility to their management teams.

Each of our business units prepares a comprehensive annual business plan. This includes monthly revenue and cost forecasts for the year ahead, taking into account new service/product developments and changes in the competitive landscape.

The business unit financial plans feed into the Group financial model. At divisional Monthly Operational Business (MOB) reviews, management teams assess each unit's performance against plan and discuss its ongoing development. This enables them to determine how planned targets will be met and identify potential difficulties at an early stage. This provides a forum to share knowledge and challenges and to develop tactics, reallocate resources and refresh strategies to meet or exceed business plans.



Our business strategy [How do we manage and measure our growth?](#)

b) Clear financial key performance indicators (KPIs)

We are a financially focused business. We monitor and challenge financial performance at all levels to probe the health and progress of our businesses and promote accountability. As well as profitability we use a range of financial measures at Group level. Collectively they form an integral part of building value for our shareholders on a consistent basis over the long term.

We particularly focus on 6 KPIs:

KPIs	Aim	Progress	
		Year end 2006	Year end 2005
Operating margins	Maintain and strengthen margins	12.9%	12.8%
Free cash flow	Maintain strong free cash flow	£154m	£127m
Capital expenditure	Keep capital expenditure at or below 4% of revenue	3.6%	3.7%
Return on capital employed (ROCE)	Achieve steadily increasing ROCE which exceeds our cost of capital	18.5%	17.1%
Gearing – interest cover	Maintain a conservative and efficient capital structure, with a relatively low level of gearing	9x	13x
Economic profit	Achieve steadily increasing economic profit	£89m	£68m

Our business strategy [How do we manage and measure our growth?](#)

In 2006, we have continued our long term trend of improving operating margins.

Operating margins

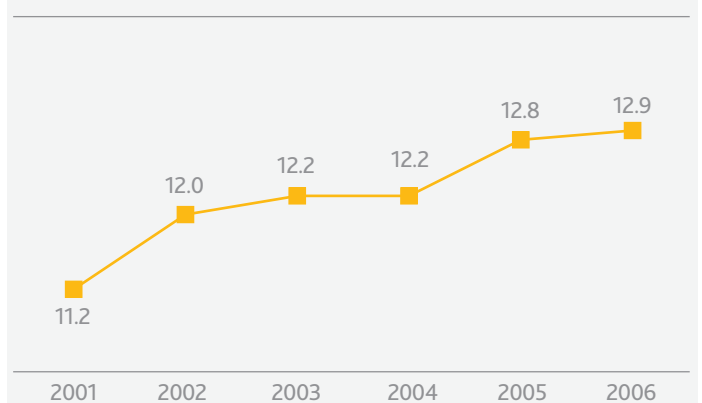
Aim: to maintain and strengthen margins.

We constantly monitor operating margins and manage operating costs to keep the business efficient and cost effective. This means:

- Focus on adding value and applying innovation
- Increasing economies of scale
- Unremitting focus on our cost base
- Offshoring back office activities to India
- Increasing the utilisation of our business centres
- Better use of technology.

In 2006, we have continued our long term trend of improving operating margins (after share based payment charge).

Operating margins
Annual increase 19 bpts



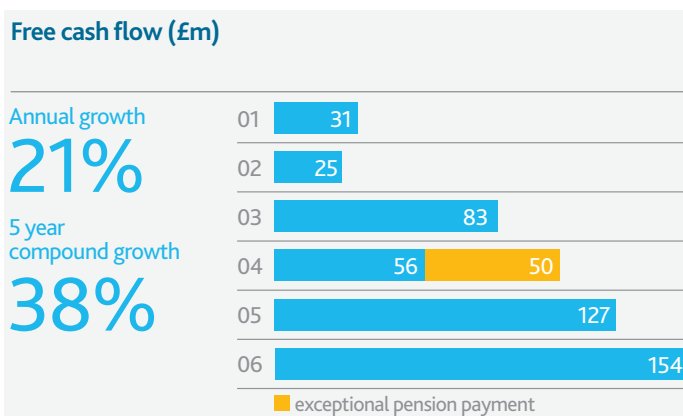
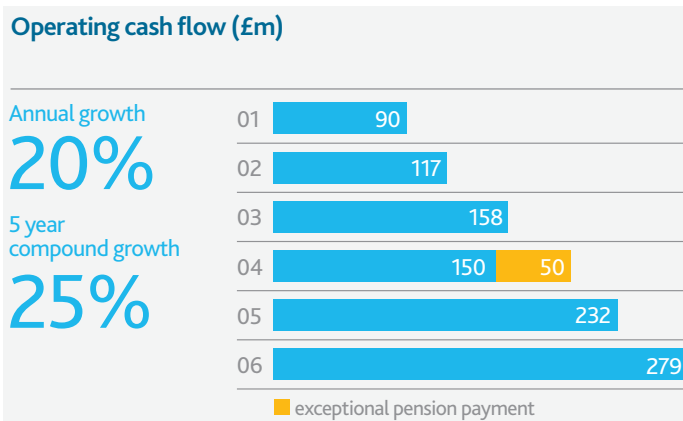
Our business strategy [How do we manage and measure our growth?](#)

We aim to maintain strong free cash flow, defined as operating cash flow less capital expenditure, interest and taxation.

Cash flow

Aim: to maintain strong free cash flow, defined as operating cash flow less capital expenditure, interest and taxation. In 2006, we generated underlying cash flow of £279m, representing an operating profit to cash conversion rate of 124%. Our underlying free cash flow increased by 21% to £154m. Our success reflects the strength of our business model and management approach, in particular:

- Securing timely payment terms for new contracts
- Focusing on cash generation
- Providing quality service to clients.



Our business strategy [How do we manage and measure our growth?](#)

We use surplus cash to add further shareholder value in 3 main ways – through acquisitions, dividends and share buybacks:

[Funding acquisitions where we see opportunities to add value.](#)

In 2006, we invested £48m in 11 acquisitions and our pipeline of potential businesses remains at a healthy level. We will continue to be extremely selective but, notwithstanding this, we anticipate a sustained volume of small transactions in 2007. [🔍 page 25](#)

[Distribution to shareholders through regular dividends.](#)

A key element in the creation of shareholder value is a progressive dividend policy. Over the 5 years to 31 December 2006, we have grown Capita's annual dividend at a compound rate of 32%. Our confidence in the strength and resilience of Capita's business model allows us to reduce annual dividend cover for 2006 to 2.6 times.

Dividends (p)	2006	2005	2004	2003	2002	2001
Interim dividend	2.70	2.10	1.75	1.30	1.00	0.75
Final dividend	6.30	4.90	3.60	2.70	2.00	1.50
Total dividend	9.00	7.00	5.35	4.00	3.00	2.25
Dividend cover	2.6x	2.7x	2.9x	3.3x	3.5x	3.5x

[Opportunistic share buybacks to maintain an efficient capital structure and minimise our long term cost of capital.](#)

In 2006, we repurchased 53m shares (representing 7.9% issued share capital) at an average price of 464p.

Share buybacks	2006	2005
% of share capital authorised to repurchase	10%	10%
No of shares repurchased	53m	13m
Total cost	£246m	£50m
Average price	464p	374p
Issued share capital	617m	671m

Our business strategy [How do we manage and measure our growth?](#)

We have successfully widened the margin between the cost of our capital and the returns we generate by investing it.

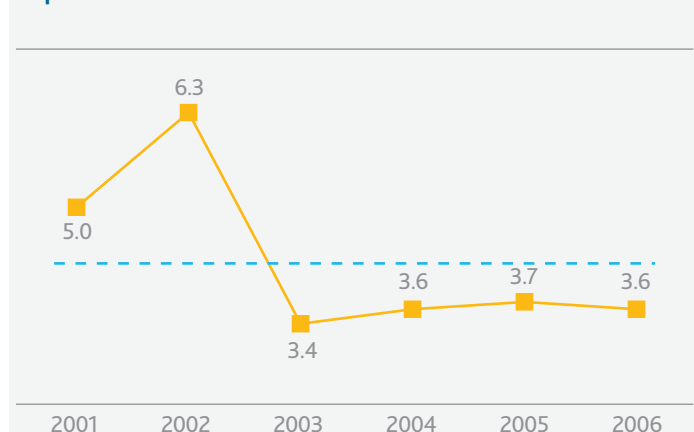
Capital expenditure

Aim: keep capital expenditure at or below 4% of revenue. This helps us focus investment on the opportunities that generate greatest shareholder value and avoid tying up too much capital in long term projects.

In 2006, we met this objective with net capital expenditure being 3.6% of annual revenue. This was achieved after significant investment in Capita's advanced IT platforms supporting, in particular, our life & pensions business.

We believe capex at or below 4% is sustainable for the foreseeable future. There are currently no indications of significant capex requirements in our business forecasts or bid pipeline. But we would not rule out the possibility of exceeding 4% if we saw an exceptional opportunity to use Capita's financial strength as a competitive advantage.

Capex as % turnover



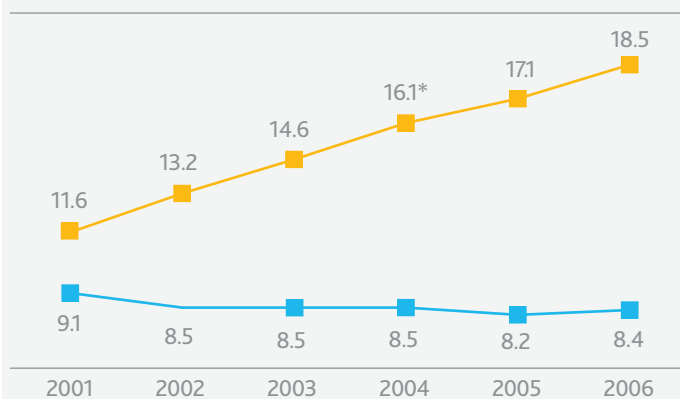
Return on capital employed (ROCE)

Aim: steadily increasing ROCE which exceeds our cost of capital. This ensures that we add shareholder value over the long term. In recent years we have successfully widened the margin between the cost of our capital and the returns we generate by investing it.

During 2006, the post tax return on average capital employed improved to 18.5%.

Net return on capital %

■ Actual ■ WACC



	2006	2005	2004	2003	2002	2001
PBIT (normalised)	225	183	156*	131	107*	77
Avg capital (£m)	880	776	696	645	575	464
Tax (%)	27.7	27.7	28.1	28.1	29.1	29.8

*excluding exceptional items

Our business strategy [How do we manage and measure our growth?](#)

Gearing

Aim: maintain a conservative and efficient capital structure, with a relatively low level of gearing.

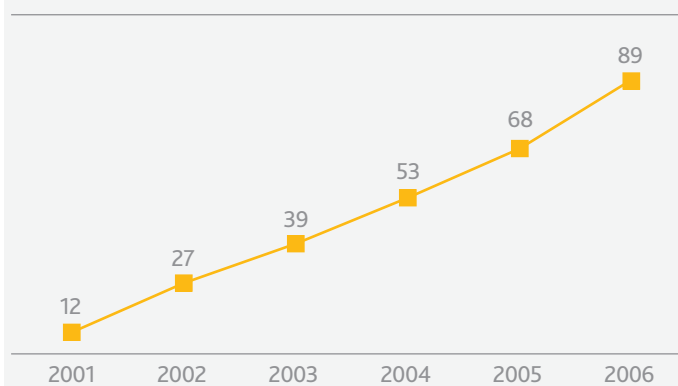
It is important for our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf. The Group has considerable headroom to take on further debt if necessary as indicated by the interest cover ratio and net debt to earnings before interest, tax, depreciation and amortisation (EBITDA). However, we would be unlikely to incur borrowings which would reduce interest cover below 7x.

Balance sheet gearing	2006	2005
Net debt		
Bond debt (£m)	379	199
Bank facilities (deposit)/drawn (£m)	(9)	19
Loan note (£m)	22	23
Total net debt (£m)	392	241
Interest cover	9x	13x
Net debt to EBITDA	1.5	1.1

Economic profit

Aim: achieve steadily increasing Group economic profit. We are focused on delivering value for our shareholders. An effective way of measuring this is to assess whether after tax returns are sufficient to cover the returns required from all our capital providers. Group economic profit allows us to assess whether the return generated on the average capital base is sufficient to meet the return requirements of our investors (debt and equity). Positive economic profit therefore means that value has been created.

Group economic profit £m
Annual growth 31%, 5 year compound growth 49%



	2006	2005	2004	2003	2002	2001
PBIT (normalised)	225	183	156*	131	107*	77
Avg capital (£m)	880	776	696	645	575	464
Tax (%)	27.7	27.7	28.1	28.1	29.1	29.8
WACC (est %)	8.4	8.2	8.5	8.5	8.5	9.1
Capital charge (£m)	(74)	(64)	(59)	(55)	(49)	(42)
Tax (£m)	(62)	(51)	(44)	(37)	(31)	(23)
Economic profit (£m)	89	68	53	39	27	12

*excluding exceptional items

Our business strategy [How do we manage and measure our growth?](#)

c) Resource and operational controls

Our continued growth and financial performance depends on having the right resources in place. To sustain our high contract win and retention rates, we have to satisfy clients that we have the operational scale and capability to deliver our promises – whether on relatively simple contracts or large scale, multi-service packages. Through the MOB process we continuously assess the needs of each business unit to ensure that we have the necessary people, infrastructure and resources for current and future development.

Each month, we monitor and review comprehensive operational management information enabling us to manage the business in a way that delivers our key financial aims.

4 key areas of attention:

Core operational indicators	Aim	Progress	
		Year end 2006	Year end 2005
Retaining the right people	Senior management retention (top 250 earning over £90k) – attract and retain the appropriate level of senior management to drive the strategic direction of the Group	91%	92%
	Overall employee retention – attract and retain the right people to deliver Group strategy, maintaining employee retention at or above industry average (81.7%)	82%	81%
Creating extensive infrastructure	Continue to grow our infrastructure of business centres to meet the needs of our growing business	52 business centres: Onshore 46 Nearshore 4 Offshore 2	47 business centres: Onshore 42 Nearshore 3 Offshore 2
	Extend our offshore capability – have at least 10% of our people based in India by 2009	3%	1.6%
Using ICT and innovation to add value	Generate economies of scale by maximising use and growing number of shared technology platforms	11 shared platforms	9 shared platforms
Ensuring effective procurement	Monitor and build relationships with key strategic suppliers through our Supplier Development Programme	Introduced comprehensive Supplier Development Programme	–
	Continue to audit all existing suppliers against Capita's standards of business – 50% of all suppliers to be audited by December 2007	Supplier audit commenced – targets set	Supplier profiling project undertaken

Our business strategy [How do we manage and measure our growth?](#)

Retaining the right people

We now employ over 27,800 people across the UK, Ireland, Channel Islands and India. Robust HR processes and disciplines ensure that we have the right skills to meet customer demand. We aim to attract and retain the right people. We understand the commercial value of a rewarding and positive working environment. And we build skills and provide career development opportunities across the Group, to create a solid base for succession planning. Our senior management team is strong and stable, with an annual retention rate exceeding 91%. Our overall employee retention rate is 82%. [pages 50-53](#)

Creating an extensive infrastructure

Group infrastructure: Our extensive infrastructure of business centres onshore in the UK, nearshore in the Channel Islands and Ireland and offshore in India, built over 2 decades allows us to deliver services in the most appropriate and cost effective way. Through accessing centres of expertise, economies of scale and a choice of operating cost models, we can deliver innovative and appropriate solutions to suit each client's aims and preferences. As we increase our economies of scale through our growing infrastructure, we can drive down our own operating costs, add greater value to our clients and increase our competitive advantage.

Offshore infrastructure: Our offshore operations in India, established in 2003, are a key and growing element of our blended operating model. We now have over 800 employees in our 2 sites in Mumbai, equating to a seat capacity of 1,300. By the end of 2007, we will have secured a 3rd site in a 2nd Indian city to build seat capacity further to 3,000 with 1,500 employees, and to strengthen business continuity. [By 2009, we anticipate in the region of 10% of our people will be based in India.](#)

Our offshore operations are being used to make significant savings, provide flexibility, raise service quality and deliver increased productivity. Capita is directly benefiting from offshoring some of our own back office functions, such as financial and HR administration; by transferring administration operations that support multiple client groups, such as registrar services, client account reconciliation and SIPP administration; and by delivering some back office administration processes for existing long term contracts. Our ability to offer a standalone offshoring or blended onshore/offshore operating model to new clients also provides a strong, competitive proposition and will continue to be the main driver of growth of our offshore operations.

Onshore	Nearshore	Offshore
46 business centres including:	4 business centres including:	2 business centres including:
→ Back office administration	→ Customer services	→ Data validation & entry
→ Customer services	→ Life & pensions administration	→ Claims & policy administration
→ Life & pensions administration	→ Financial services	→ Fund management administration
→ Resourcing & training	→ Corporate registrars	→ Accounting & finance processing
→ Share registration		
→ Property consultancy		
→ Document management		
→ Claims & policy administration		
→ HR administration		

Our business strategy [How do we manage and measure our growth?](#)

We foster innovative thinking and we have the skills to translate innovation into practical working solutions.

Using ICT and innovation to add value

We aim for continuous improvement in our own business models and our services to clients, by combining the best in ICT and innovation with proven business processes. We foster innovative thinking and we have the skills to translate innovation into practical working solutions. With no ties to specific technology platforms or manufacturers, we are free to source or develop the most appropriate ICT solutions for each business and client. This enables us to provide clients with the best possible service and economies of scale, giving us a highly competitive edge when bidding for and extending contracts.

We have also invested in developing technology platforms which deliver common, non-location specific services for multiple clients from one infrastructure. With shared facilities, expert resources and technology platforms we can create considerable economies of scale. We have developed shared platforms for administering company registrar services, investment funds, unit trusts, trustee services, Child Trust Funds, self invested personal pensions, occupational pensions, life & pensions services, insurance claims, HR services and local government revenues and benefits.

Ensuring effective procurement

Effective procurement and supplier management gives us access to the right external resources on competitive terms. Our scale enables us to negotiate favourable terms and develop strategic relationships with our suppliers.

Our preferred supplier programme and process for assessing new and developing existing suppliers, ensures that they meet our own corporate responsibility, diversity and performance standards. As part of the bid process, clients often require us to demonstrate stringent and transparent procurement processes and standards in our supply chain.

Our business strategy [How do we manage and measure our growth?](#)

d) Careful risk management

Systems and procedures are in place across the Group to identify, assess and mitigate major business risks that could impact the delivery of our growth strategy. Monitoring our exposure to risk is an integral part of the MOB process. Across our regulated businesses this is supplemented by formally constituted committees.

At Group level, risk management is independently facilitated and challenged by the Group Risk and Business Assurance function, which reports to the Group Finance Director and independently to the Audit Committee. [pages 27 and 70](#)

Risk category	Risk management and mitigation	
Contract pricing and operational resources	<ul style="list-style-type: none"> → Group Board involvement in all major contracts → Aligned with core competencies and financial targets → Rigorous pricing and risk assessment, separate from sales process 	<ul style="list-style-type: none"> → Secure appropriate pricing and contract terms to ensure fair risk/reward profile → Detailed, tailored transition process to ensure continuity of service and retention of employees.
Acquisitions – quality and appropriate pricing	<ul style="list-style-type: none"> → Aligned with core competencies/financial targets → Rigorous, risk based due diligence process 	<ul style="list-style-type: none"> → Fit with strategy and pricing is subject to consideration and approval by the Group Board → Clear transition process to ensure adoption of Group policies and procedures.
Operational risk	<ul style="list-style-type: none"> → Escalated via the MOB process and Risk Committees to Divisional Executive and Group Boards as appropriate → Processes and appropriate multiple operating performance indicators in place across all businesses/contracts 	<ul style="list-style-type: none"> → Processes and reports in place to highlight, in particular, business processes, employees, health & safety and environment issues → Supporting software tools are being rolled out across our businesses.
Fraud issues	<ul style="list-style-type: none"> → Mitigating policies and procedures are disseminated by the Group Risk and Business Assurance function in conjunction with Group Compliance 	<ul style="list-style-type: none"> → The Group has invested in a tailored fraud awareness training package that is being rolled out across all business units to enhance fraud management.
Regulatory and legislative impacts	<ul style="list-style-type: none"> → Monitored by Group Compliance function reporting directly to the Group Finance Director and independently to the Audit Committee → Review and communications process for regulatory and legislative change that impacts Group-wide 	<ul style="list-style-type: none"> → Separate challenge and review process for businesses operating in a regulatory environment. These businesses have comprehensive processes embedded into their business functions to address specific regulatory requirements.
Financial control	<ul style="list-style-type: none"> → Capital expenditure is subject to rigorous budgetary controls and spending above specified levels requires Group sign off → Financial performance of each business unit is monitored each month and actual progress against plan is challenged by Divisional Executive Board 	<ul style="list-style-type: none"> → Treasury management – the Group’s principal financial instruments for fundraising are bonds, unsecured loan notes, finance leases and overdrafts. The Group has various other financial instruments such as trade creditors and debtors that arise directly from its operations. Where appropriate, the Group may also use derivatives to hedge its exposure to fluctuations in interest rate and foreign exchange rates. It is the Group’s policy that no trading in financial instruments will be undertaken.
Attracting and retaining employees	<ul style="list-style-type: none"> → Investment in training and development → Competitive, appropriate incentive schemes → Succession planning is a key element of the MOB process 	<ul style="list-style-type: none"> → Continual development of our robust screening and reference process for all employees.
Maintaining reputation	<ul style="list-style-type: none"> → Robust process for handling and escalating enquiries/complaints from all stakeholders at both a business/contract and Group level – primarily clients, media, public and suppliers 	<ul style="list-style-type: none"> → Centralised proactive and reactive PR team to promote Group and separate businesses and to manage communications regarding issues.
Appropriate supplier relationships	<ul style="list-style-type: none"> → Active supplier engagement to assess and align suppliers with Group values and processes 	<ul style="list-style-type: none"> → Supplier registration and approvals processes are in place. A new Supplier Development Programme for key strategic suppliers is being developed and implemented during 2007.

Our business strategy

3) Which markets do we target?

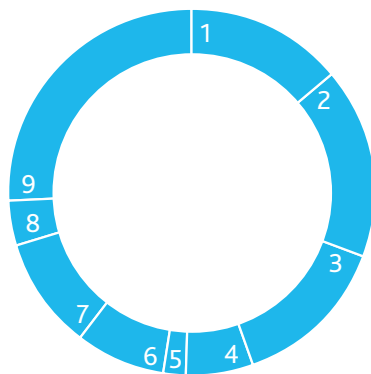
We work across a broad range of markets characterised by strong growth, allowing us to be selective in our approach to new opportunities. We are market leader in a number of sectors and face a range of different competitors across each of our markets.

Our business strategy Which markets do we target?

Our 9 chosen markets are:

Revenue by market (%)	2006 %	2005 %
1. Central government	14	16
2. Local government	17	15
3. Education	14	14
4. Transport	6	7
5. Health	1	1
6. Life & pensions	8	6
7. Insurance	10	12
8. Financial services	4	29
9. Private sector	26	

Public/private split
52%/48%
(2005: 53%/47%)



Public sector

Central government

Across the public sector there is constant pressure to increase efficiency while simultaneously enhancing service quality. As Government departments are set ever more demanding financial and service targets, they look to the private sector to help them deliver organisational change and service transformation. Market growth of 11% is expected out to 2010.* Our track record of successfully delivering complex and high profile transformational projects, supported by effective ICT and process re-engineering, puts us in pole position to compete for future Government initiatives.

Drivers

- Gershon Efficiency Review and the 2004 and 2007 Spending Reviews create pressure for shared services – merging transactional functions, standardising and simplifying processes and sharing expertise
- Imperative to improve quality of service delivery
- Government calls for citizen-centred approach to service delivery following Sir David Varney's report 'Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer' in the 2006 Pre Budget Review
- Need to improve productivity through process redesign, better use of technology and management of absenteeism
- Relocation of public sector functions following Lyons Review calls for rationalisation of assets and improved HR and ICT systems to link geographically dispersed offices.

Services

- BPO
- Customer services
- Administration and support
- Human resources
- ICT
- Property consultancy
- Finance and treasury
- Consultancy

Divisions

- Integrated Services
- HR Solutions & Property Consultancy
- Life & Pensions
- Insurance & Specialist Services
- ICT & Advisory Services

Our business strategy Which markets do we target?

Public sector

Local government

Transforming public services for the benefit of citizens and communities is an explicit local government priority. This is driving local government to seek alternative ways of providing services and creating opportunities for the private sector to help develop new delivery models. With over 20 years' experience in this marketplace and a UK-wide network of multi-service centres, we are uniquely placed to help local authorities achieve effective change. Industry analysts forecast market growth of 9% a year to 2010.*

Drivers

- Gershon Efficiency Review and the 2004 and 2007 Spending Reviews create pressure for shared services
- Local government's response to Varney Service Transformation report is to focus increasingly on new localism
- Local strategic partnership models and local area agreements: councils working with other public agencies, other councils, private and voluntary organisations to achieve common goals supported by shared services
- The Local Government White Paper 'Strong and Prosperous Communities', which encourages local government to be a 'place shaper' commissioner rather than always being a direct provider of services
- Focus on economic and social regeneration of local communities.

Services

- BPO
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Divisions

- Professional Services
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- Financial Services
- ICT & Advisory Services

Education

The Government has committed further funding to improve educational standards and raise accessibility: spending worth 5.6% of GDP is allocated for 2007–08, but there is a need to ensure value for money. Government education strategy is focused on working in partnership across the public, private and voluntary sectors to deliver high quality results. We are particularly well placed to contribute because we combine ground-level experience in schools and higher education with strategic support for local authorities and the DfES. Industry analysts are predicting market growth rates of 7.6% out to 2010.*

Drivers

- Efficiency targets of at least £4.3bn by 2007-08, of which 50% must be reinvested in front line activities
- Pressure for more shared services across the sector
- Children's Services Agenda – the embedding of Children's Trusts linking education, social, health and other services
- Local authorities moving towards a commissioning role, with less emphasis on delivering services themselves
- Government commitment to investing in infrastructure and ICT through Building Schools for the Future programme
- Focus on ICT to reduce bureaucracy, enhance assessment and improve financial management
- The Leitch Review of skills and the Government's policies for further education and training will create new opportunities.

Services

- BPO
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- ICT & Advisory Services

Our business strategy Which markets do we target?

Public sector

Transport

Total Government expenditure on transport will exceed £37bn between 2005 and 2008 – an average annual real-term increase of 4.5%. A key priority is road congestion, and the Government has committed funds to exploring innovative ways of reducing local traffic. The private sector is already well established in this area and our delivery of the Central London Congestion Charging Scheme is now a proven model. Our offering spans a broad range of transport consultancy, from strategic and policy issues to effective design and delivery of complete transport management solutions. Industry analysts predict market growth of 7% out to 2010.*

Drivers

- New Public Service Agreement to cut urban congestion by 2010–11
- Government commitment to road pricing schemes
- Focus on local transport needs with public consultation
- Government commitment to building road and transport infrastructure
- Use of technology to improve network management.

Services

- BPO
- Customer services
- Administration and support
- Human resources
- ICT
- Property consultancy

Divisions

- Integrated Services
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- ICT & Advisory Services

Health

NHS funding is set to increase by an average of 7% a year between 2005-06 and 2007-08. But there are significant financial pressures for organisational change through initiatives such as shared services and back office rationalisation. These pressures include targeted savings of £6.5bn a year by 2007-08, including £0.5bn from rationalisation under the Arm's Length Body Review (ALBR), for reinvestment into frontline services. Outsourced services and public private partnerships are increasingly seen as playing a key role in capacity building and delivery of health commissioning. Industry analysts predict annual market growth of 44% to 2010.*

Drivers

- Funding pressure and 2007 Spending Review
- Enhancement of commissioning capacity
- Rationalisation and modernisation of support services resulting from reconfiguration of Strategic Health Authorities and Primary Care Trusts
- Roll-out of Connecting for Health programme is requiring support to optimise use of new systems and make better use of human capital
- Rationalisation of existing property and reinvestment in new property to improve work environment and patient care
- Streamlining clinical administration and achieving the 18 week target from first appointment to treatment.

Services

- BPO
- Administration and support
- Human resources
- ICT
- Property consultancy
- Finance and treasury
- Consultancy

Divisions

- HR Solutions & Property Consultancy
- ICT & Advisory Services

Our business strategy Which markets do we target?

Private sector

Private sector

Right across the private sector, companies' competitiveness depends on unrelenting improvement in productivity and customer service. Increasingly, they recognise outsourcing of non-core activities as an indispensable part of achieving this – adding real value to their performance and allowing them to focus resources on their central areas of expertise. Opportunities in this market continue to grow as the proven competitive benefits of outsourcing make it an increasingly acceptable alternative to in-house provision. Capita is well established in the private sector, with numerous clients across a wide range of industries.

Our 3 largest private sector markets are life and pensions, insurance, and other financial services. We have also been particularly successful in securing business with organisations in the retail and telecommunications industries.

Drivers

- Pressure to reduce costs while improving customer service and retention
- Need to introduce new products to market faster to meet changing customer requirements
- Need for better access to expert operational and advisory capabilities
- Competition for skills requires focus on employee support and benefits
- Drive to improve productivity requires better management of sickness and absenteeism
- Increasing regulatory and legislative requirements – UK business views these as the greatest obstacle to growth (CBI).

Services

- BPO
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- ICT
- Property consultancy
- Finance and treasury
- Consultancy

Divisions

- Integrated Services
- Professional Services
- HR Solutions & Property Consultancy
- Financial Services
- Life & Pensions
- Insurance & Specialist Services
- ICT & Advisory Services

Life and pensions

Continuing to face a highly competitive and regulated environment, many life and pensions companies are adopting new service models to increase their focus, efficiency and flexibility while maintaining service quality. This is stimulating demand for outsourcing, which industry analysts expect to grow by 16% annually across the sector to 2010.* Our deep experience across both open and closed book business gives us a strong proposition in this market. Our specialist skills and software are also proving increasingly attractive to occupational pension providers, as pension scheme structures become ever more complex.

Drivers

- Need to reduce operating costs while improving performance and customer retention
- Pressure on administration processes from increasingly complex regulation and initiatives such as Treating Customers Fairly
- Consumer and adviser demand for choice requires ability to bring new vehicles, such as wrap products, to market quickly
- Adviser demand for new models to reduce reliance on upfront commission
- Response to rapidly changing distribution marketplace
- Need by providers to develop closer relationships with advisers through the use of technology and 'straight through processing'
- Need for specialist skills – and process and systems enhancement – to comply with new pensions legislation and support the shift from final salary pension schemes to money purchase schemes.

Services

- BPO
- Customer services
- Administration and support
- ICT
- Finance and treasury

Divisions

- Life & Pensions
- Financial Services
- Professional Services
- ICT & Advisory Services

Our business strategy Which markets do we target?

Private sector

Insurance

The UK insurance industry continues to operate in a challenging environment. Companies face increasing regulatory requirements while striving to cut costs, improve efficiency and enhance customer service. The rapid growth of internet sales, industry consolidation and intensifying international competition are driving dramatic shifts in consumer expectations, pricing and service delivery. As organisations seek ways to compete more effectively, they are turning increasingly to outsourcing to deliver both specialised technical solutions and management of non-core services and operations. Annual growth of 6% is forecast in this market to 2010.*

Drivers

- Need for effective administration processes to address complex regulation
- Need to reduce operating costs and improve customer service
- Opportunities to establish strategic partnerships for low risk service improvement and business transformation
- Focus on improving management of claims costs, in particular through fraud and leakage prevention
- Need to meet customer demands for more transparency, information, flexibility and value
- Continued rise of affinity brands – emerging interest from internet service providers and utilities alongside growing numbers of retailers.

Services

- BPO
- Customer services
- Administration and support
- ICT

Divisions

- Insurance & Specialist Services
- ICT & Advisory Services

Financial services

These are exciting times for the financial sector. Across the board growth has been driven by high levels of M&A work, IPOs and retail investor activity. New markets are opening up and regulatory changes abroad, such as Sarbanes-Oxley, are driving work into London. Faced with ever fiercer competition and growing regulation, product providers are concentrating on developing and distributing competitive products – and are increasingly keen to outsource back office functions. Industry analysts estimate growth of 7% annually to 2010.* Our uniquely broad range of services enables us to offer providers a single view of their customers across their whole product range.

Drivers

- Continuing regulatory change encourages companies to seek partners to assist with managing their compliance risk
- Regulatory change creates opportunities for our customers to launch a plethora of new products – all requiring administration
- Regulatory change creates requirements for us to do more for our customers and enables us to create new premium services
- Structural changes in markets are creating new outsourcing opportunities
- The pre-eminence of the London markets creates new opportunities – last year, 25% of companies listing in London were US based and 40% of companies listing on AIM were overseas based.

Services

- BPO
- Customer services
- Administration and support
- Human resources
- ICT
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- Consultancy

Divisions

- Financial Services
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- ICT & Advisory Services

Our business strategy

4) How do we maintain performance across our divisions?

Each business across the Group's operating divisions is aligned with the Group's overall objectives and strategy. They are managed within a flexible divisional structure which ensures that the right resources are deployed for each business and contract.

The divisional structure fosters a clear, individual focus for each business while providing ready access to the Group's wider resources, expertise and economies of scale. The common aim is to deliver service excellence and generate profitable growth.

Our business strategy [How do we maintain performance across our divisions?](#)

Maintaining a simple, pragmatic divisional structure that delivers our strategy

We have adopted a pragmatic, flexible divisional operating structure which is regularly refreshed. We move businesses, contracts and managers across the divisions to ensure the best match of leadership and resources as the Group grows.

We are currently organised into 7 operating divisions, plus a Group sales and marketing division. Each operating division brings together activities with similar operating models or client bases. Each major contract secured by the Group sales team is managed within the division which best meets its operational, regulatory and management requirements.

Support services, such as legal and commercial, property management, procurement and HR, report directly to Group Board Executive Directors to ensure robust control and consistent standards and benefits are shared across the Group.

The operating divisions, and the businesses within them, all follow the Group strategy of securing strong, sustainable growth both organically and by acquiring complementary businesses.

Within the divisions, each business produces its own annual business plan outlining specific strategies and considerations and setting performance targets for the following year.

The success of our businesses comes from the individual focus of each business, leveraged by their ready access to divisional and Group initiatives and resources.

This potent combination means that all our businesses are able to: share operational skills and resources; benefit from economies of scale; create and deploy innovation; and harness the best of ICT and business processes.

<p>Integrated Services</p> <ul style="list-style-type: none"> → BBC TVL → Criminal Records Bureau → TfL Congestion Charging → Central government services → Administration services → Business travel → Offshore 	<p>Professional Services</p> <ul style="list-style-type: none"> → Software services <ul style="list-style-type: none"> – Private sector – Education – Local government → Local government services → Strategic children’s services → Local government partnerships <ul style="list-style-type: none"> – Blackburn with Darwen BC – Swindon BC 	<p>HR Solutions & Property Consultancy</p> <ul style="list-style-type: none"> → Integrated HR solutions → Resourcing → Veredus → Capita Symonds 	<p>Financial Services</p> <ul style="list-style-type: none"> → Shareholder services → Financial administration services → Trust services → Sector
<p>Life & Pensions</p> <ul style="list-style-type: none"> → Life & pensions → Capita Hartshead → SIP services 	<p>Insurance & Specialist Services</p> <ul style="list-style-type: none"> → Insurance services <ul style="list-style-type: none"> – Outsourced solutions – Specialist services – Teceris → Legal services → Occupational health → Customer contact centres <ul style="list-style-type: none"> – Eircom – DSGi 	<p>ICT & Advisory Services</p> <ul style="list-style-type: none"> → Service Birmingham → Harrow Council → Print and fulfilment → Advisory services → IT services → Mission Assurance & Testing 	

Our business strategy [How do we maintain performance across our divisions?](#)

Progress across our divisions in 2006

As demonstrated by the Group's financial results, 2006 business performance across our divisions was strong, driven by both organic growth and acquisitions.

Division	Performance	2006 £m	2005 £m	2006 developments
Integrated Services contains all of our major central government contracts and our offshore operations.	Turnover	301	263	→ TV Licensing: introduction of new process and technology solutions, including use of our offshore facilities for some back office processing, delivering both improved productivity as well as cost efficiencies for Capita → Existing contract extended to administer Central London Congestion Charging and the Western Extension Zone (WEZ) to 2009, as well as a supplemental agreement to administer the Low Emissions Zone (LEZ). WEZ was smoothly implemented on 19 February 2007 in an effective and well run process → CRB: Development of e-infrastructure which will enable the CRB to launch more electronic products and services to achieve the goals outlined in its 5 year strategy and business plan. The first stage of this, Online Tracking, was successfully
	Operating profit	47	42	
	Operating margin	15.6%	16.0%	
	Capex	16.6	14.0	
Professional Services comprises our local government services and all our software businesses as well as Capita Strategic Children's Services.	Turnover	192	169	→ Capita Local Government Services performed strongly in the year, securing major partnerships with Rossendale Borough Council and South Oxfordshire & Vale of White Horse District Councils and winning administration and customer services business from new and existing clients, including Bristol and Edinburgh City Councils and Barking and Dagenham Council → Software Services – our local government service and software businesses are working together to support authorities with the shared services agenda → Following the introduction of the Government's 'Every Child Matters: Change for Children' strategy, we reviewed our service offering in this area and are now recognised as leading providers of both consultancy and interim
	Operating profit	37	33	
	Operating margin	19.3%	19.5%	
	Capex	6.7	4.7	
HR Solutions & Property Consultancy comprises our resourcing and property services operations. To provide greater transparency they are reported separately.	HR Solutions	206	202	→ Integrated HR Solutions: 2006 has seen a leap forward in the development of our integrated HR solutions business, with the commencement of the BBC and Northern Ireland Civil Service contracts and the establishment of an HR administration centre in Northern Ireland. Our ability to provide an integrated solution spanning HR strategy, resourcing and payroll administration, learning and development and outplacement positions us uniquely in this market
	Turnover	206	202	
	Operating profit	18	15	
	Operating margin	8.7%	7.4%	
	Capex	4.4	1.8	
	Property Consultancy	199	191	→ Now the 4th largest multidisciplinary property consultancy in the UK (2005: 5th) → Selected by Cambridgeshire County Council to deliver property consultancy services, worth approximately £15m over 7 to 10 years → We are currently designing 4 education Academies in Enfield, Bristol and Grimsby (2) and project managing a further 11. We are also providing a multidisciplinary range of design and education services for the £250m Lancashire Schools 'Building Schools for the Future' programme
	Turnover	199	191	
	Operating profit	13	16	
	Operating margin	6.5%	8.4%	
	Capex	3.1	4.1	

Our business strategy How do we maintain performance across our divisions?

launched in January 2007, enabling customers to track applications through the Disclosure process

→ **Capita Business Travel:** Capita Lonsdale, acquired in November 2005, has provided a firm footprint in this market. We acquired an additional travel administration business in January 2007 to enhance our service offering and to extend our client reach

→ **Offshoring:** We have successfully transferred work from existing clients and Capita Group businesses to India, resulting in increased productivity and flexibility due to a demonstrably high quality and flexible team of employees.

management and software support to children's services authorities

→ Integration of **Quay** and **Webline**, software to deliver electronic trading for providers and advisers, developed in conjunction with life & pensions, insurance and financial services

→ We broadened this proposition in 2006 by acquiring **Synaptic Systems**, a leading provider of online life, pensions and investment research.

→ Our resourcing businesses continue to perform well. **Capita Resourcing** has experienced good growth, winning new business and successfully extending existing managed services contracts with BAA and NATS. **Capita Education Resourcing** maintained market share and increased its further education supply business by 117%

→ **Veredus**, our search and selection business, secured a number of new and existing clients including National Assembly for Wales, DTI and the Arts Council.

→ Successful integration of acquired architecture practices, Ruddle Wilkinson and Church Lukas

→ Awarded major consultant of the year at the New Civil Engineer Magazine/Association for Consulting and Engineering Consultant of the Year Awards 2006.

2007 Priorities and challenges

→ Continued delivery of operational excellence for clients, thereby strengthening client relationships and gaining vital references for future opportunities

→ Continued focus on introducing innovation and alternative service delivery models, including offshoring, to increase quality and efficiency across contracts

→ Focus on employee retention and training to maintain consistency of service for our long term clients

→ Closer working with the Group Sales Team to identify new sales opportunities, to extend relationships and explore service delivery models.

→ Maintain market share in the local government and education software markets through continued development of new and innovative products to keep track with changing requirements

→ Expand software services private sector offering

→ Leverage marketing and sales across local government through joint initiatives with other Capita businesses working in this market

→ Explore opportunities and synergies across private sector software and document management and imaging services.

→ Focus on smooth transfer and implementation of new integrated HR contracts

→ Continue to develop value added services to further expand our portfolio

→ Utilise offshore capability where appropriate

→ Continue working with Group sales to sell integrated HR propositions as separate contracts and as part of wider BPO partnerships

→ Continue to seek synergies across resourcing businesses and focus on managed resourcing partnerships to secure longer term relationships.

→ Increase work with local authorities to maximise returns from their property estate/investment

→ Continue to work closely with Group sales to provide added value propositions as part of wider transformation partnership opportunities

→ Continue to foster close working across property consultancy disciplines and share client relationships to accelerate organic growth

→ Increase presence on procurement frameworks to expand access to opportunities across wider markets.

Our business strategy How do we maintain performance across our divisions?

Division	Performance	2006 developments															
Financial Services contains our shareholder, financial and trust administration and treasury services businesses.	<table border="1"> <thead> <tr> <th></th> <th>2006 £m</th> <th>2005 £m</th> </tr> </thead> <tbody> <tr> <td>Turnover</td> <td>121</td> <td>98</td> </tr> <tr> <td>Operating profit</td> <td>31</td> <td>24</td> </tr> <tr> <td>Operating margin</td> <td>25.6%</td> <td>24.5%</td> </tr> <tr> <td>Capex</td> <td>3.6</td> <td>1.8</td> </tr> </tbody> </table>		2006 £m	2005 £m	Turnover	121	98	Operating profit	31	24	Operating margin	25.6%	24.5%	Capex	3.6	1.8	<p>→ Our operations supporting the financial services sector have performed superbly, demonstrated by the growth in our fund and unit trust administration business. During the year, we more than doubled funds under administration – which now exceed £30bn</p> <p>→ Growth has come organically, through acquisition, by increasing our product range and by entering new markets including Jersey and Dublin for offshore funds</p> <p>→ Structural changes in the industry are increasingly driving demand for outsourcing solutions. We provide a wide range of fund administration services including a hosting solution for fund managers. Under this</p>
	2006 £m	2005 £m															
Turnover	121	98															
Operating profit	31	24															
Operating margin	25.6%	24.5%															
Capex	3.6	1.8															
Life & Pensions comprises all our life & pensions businesses including open and closed book, occupational pensions and SIPP administration.	<table border="1"> <thead> <tr> <th></th> <th>2006 £m</th> <th>2005 £m</th> </tr> </thead> <tbody> <tr> <td>Turnover</td> <td>184</td> <td>115</td> </tr> <tr> <td>Operating profit</td> <td>23</td> <td>14</td> </tr> <tr> <td>Operating margin</td> <td>12.5%</td> <td>12.2%</td> </tr> <tr> <td>Capex</td> <td>18.4</td> <td>15.1</td> </tr> </tbody> </table>		2006 £m	2005 £m	Turnover	184	115	Operating profit	23	14	Operating margin	12.5%	12.2%	Capex	18.4	15.1	<p>→ We are the leading outsourcing provider in this area with an estimated 39% market share of contracts let. We currently administer 4.5m life, savings & pensions policies and this market continues to be very active</p> <p>→ SIPP administration is a strong growth area of the pensions market. Our SIPP business currently administers self invested personal pensions for a number of leading life and investment firms including Scottish Life, St. James's Place and MetLife</p> <p>→ Our new Prudential contract, delivering administration services from Belfast to Prudential's UK life and pensions operations, transferred smoothly at the beginning of October and already progress has been made in improving service quality and efficiency</p>
	2006 £m	2005 £m															
Turnover	184	115															
Operating profit	23	14															
Operating margin	12.5%	12.2%															
Capex	18.4	15.1															
Insurance & Specialist Services comprises specialist services and outsourced solutions for the insurance market, occupational health services and outsourced customer service centres.	<table border="1"> <thead> <tr> <th></th> <th>2006 £m</th> <th>2005 £m</th> </tr> </thead> <tbody> <tr> <td>Turnover</td> <td>283</td> <td>254</td> </tr> <tr> <td>Operating profit</td> <td>31</td> <td>24</td> </tr> <tr> <td>Operating margin</td> <td>11.0%</td> <td>9.4%</td> </tr> <tr> <td>Capex</td> <td>5.3</td> <td>5.3</td> </tr> </tbody> </table>		2006 £m	2005 £m	Turnover	283	254	Operating profit	31	24	Operating margin	11.0%	9.4%	Capex	5.3	5.3	<p>→ DSG international plc: awarded further contract by DSGI to deliver telephone based technical support from DSGi's UK and Nordic technical support centre, based in Nottingham. The partnership was awarded best outsourcing relationship and DSGi's contact centre in Sheffield, managed by Capita, was awarded best outsourced contact centre at the Customer Contact Excellence Awards 2006.</p> <p>→ Our contracts with <i>eircom</i> are progressing well. In 2006, the call centre managed by Capita on behalf of <i>eircom</i> won a number of awards including best call centre with less than 250 agents in the world at the Contact Centre World Awards, contact centre of the year and best training and telemarketing programmes at the Irish Contact Centre Awards</p>
	2006 £m	2005 £m															
Turnover	283	254															
Operating profit	31	24															
Operating margin	11.0%	9.4%															
Capex	5.3	5.3															
ICT & Advisory Services contains our ICT business which supports the Group's operations and external clients as well as our advisory business.	<table border="1"> <thead> <tr> <th></th> <th>2006 £m</th> <th>2005 £m</th> </tr> </thead> <tbody> <tr> <td>Turnover</td> <td>252</td> <td>145</td> </tr> <tr> <td>Operating profit</td> <td>25</td> <td>15</td> </tr> <tr> <td>Operating margin</td> <td>9.9%</td> <td>10.3%</td> </tr> <tr> <td>Capex</td> <td>4.9</td> <td>2.9</td> </tr> </tbody> </table>		2006 £m	2005 £m	Turnover	252	145	Operating profit	25	15	Operating margin	9.9%	10.3%	Capex	4.9	2.9	<p>→ Service Birmingham – Our ICT led transformation partnership with Birmingham City Council is progressing well with measurable service quality improvements and significant savings already achieved</p> <p>→ Harrow Council: Successfully launched new Management Information System (MIS) and Enterprise Resource Planning (ERP) systems helping to improve accessibility to information and streamline services</p>
	2006 £m	2005 £m															
Turnover	252	145															
Operating profit	25	15															
Operating margin	9.9%	10.3%															
Capex	4.9	2.9															

Our business strategy How do we maintain performance across our divisions?

arrangement, the fund manager outsources the administration of 39 out of 40 functions to Capita. The manager retains the core function of investment management

- **Capita Registrars** has administered 7 out of 10 of the UK's largest flotations

→ Successfully transferred and developed services that could be delivered at greatly reduced cost with high service standards from our operations in India. **Capita Financial Services** is currently the largest internal user of our offshoring facilities and is an excellent internal reference.

2007 Priorities and challenges

- Maintain high levels of compliance across the business and develop solutions which help clients meet increasingly onerous regulatory requirements
- Continue to work with other parts of the business, notably Life & Pensions, to provide a single provider solution covering both policy and underlying investment administration

- Continue to drive margin growth from leveraging our scale and operating model
- Continue to expand our nearshore operations in Ireland and Jersey
- Pursue further appropriate acquisition opportunities.

- Created a joint proposition across life & pensions, insurance and financial services to enhance the interface between providers and distributors, enabling products to be brought to market swiftly and to drive down the cost of distribution

→ **Capita Hartshead** continues to perform strongly with 28% of the current outsourced market and 12% of the overall occupational pension scheme market.

- Maintain high levels of compliance across the business and develop solutions which help clients meet increasingly onerous regulatory requirements
- Achieve further economies of scale by processing a greater number of contracts through our existing infrastructure
- Achieve a smooth transition of services from Co-operative Insurance

- Continue to develop our technology platforms to assist clients with bringing new products to market faster
- Continue to build offshore capability into existing contracts and new proposals
- Continue to grow presence in occupational benefit consultancy and actuarial services.

- **Occupational Health** is performing well, winning contracts with a number of new corporate clients. We now support over 2 million employees in the UK, representing 22% of the market (Occupational Health Market Development Report, 2005)

→ Working with Life & Pensions, Financial Services and Software Services to extend our joint service offering to providers by giving access to general insurance products via our BDML capability

→ **Capita Insurance Services** was awarded BPO service provider of the year at the National Outsourcing Association Awards 2006.

- Maintain high levels of compliance across the regulated and legal businesses and develop solutions which help clients meet increasingly onerous regulatory requirements
- Focus on cross selling additional services to existing clients
- Focus on developing innovative solutions to support our clients' business plans and changes in their business environments

- Continued investment in enhanced technology and shared technology platforms
- Position the business to compete successfully for opportunities in changing markets, such as Lloyds of London and insurance broking.

- **Capita IT Services** – continues to support both external clients and internal contracts and businesses. Secured contract extension with Society of Motor Manufacturers and Traders (SMMT) in a contract worth £12m over 5.5 years

→ **Capita Advisory Services** continues to support the Group's wider BPO offering as well as securing new business with external clients across the public and private sectors. In 2006, this included Nottingham City Council, Egg, Marks & Spencer Money and Sport England.

- Continue to deliver and expand local government transformation partnerships
- Continued development of shared ICT platforms

- Complete final stage of the data consolidation project (commenced in 2005) to improve Group-wide ICT service availability and provide scalable solutions for additional major contracts.

How do we manage and inspire our people?

We aim to attract, develop and retain talented, ambitious people so that we have the resources we need to help our clients and grow our business. To do this successfully, we aim to make Capita a safe, open, friendly, positive and rewarding place to work. Within a clear financial framework, we believe in giving responsibility for the day to day running of our business to the managers and employees who deliver our frontline services.

How do we manage and inspire our people?

Our people are key to our development

Driving the strategic direction set by the Group Board is a team of some 250 senior managers. They are responsible for delivering growth across the Group and maintaining smooth operations and high service levels. They focus on ensuring that the necessary procedures, infrastructure and employees are in place. Their energy and leadership are key to creating a productive working environment.

Our people are the engine room driving our success. Their hard work and commitment to service delivery are vital to meeting client expectations and supporting our growth.

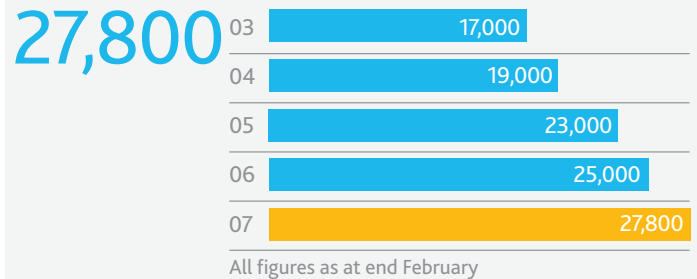
21 years ago we had 33 people; today we have some 27,800, with numbers almost doubling in the last 5 years. This rapid growth has come from:

- Direct recruitment as a result of overall business growth and to serve new greenfield outsourced service contracts
- Employee transfers from customers under outsourcing contracts
- Employee transfers as a result of acquisitions.

Across all our divisions we aim to:

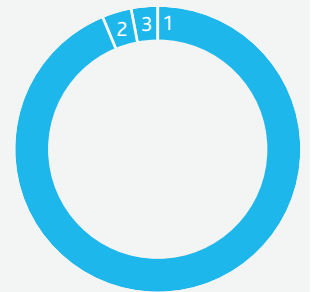
- **Attract** the right people with the skills to deliver quality service for our clients
- **Retain** and develop them
- **Manage** and inspire them

Employee numbers



Employees by location

1 Onshore	93.7%
2 Nearshore	3.3%
3 Offshore	3.0%



Our people are the engine room driving our success.

How do we manage and inspire our people?

Attracting the right people

As the Group has evolved, the opportunities available to employees have grown, making us increasingly attractive to people looking for a challenging and varied career. Our success and financial strength also help by enabling us to offer a stable and inspiring workplace.

We have created an environment which rewards performance. Remuneration packages across the Group are set at levels that keep us competitive in each part of the business. For our senior people, responsible for the overall direction and performance of the Group or its component parts, a significant element of their financial reward is linked to the financial success of the business.

Our core values encourage fairness and respect across the business.

During 2006 we published a new combined equality and diversity policy covering all anti-discrimination requirements including age, sex, race, religious beliefs and gender. Our policies are designed to support and comply with all relevant UK, European and Indian human rights and employment legislation. These policies are embedded in our training and operational procedures.

Because many of our operations involve sensitive or regulated services we have rigorous recruitment processes and controls to protect against fraud, theft and other wrongdoing.

Over two-thirds of our employees have transferred to Capita through outsourcing contracts or acquisitions. They bring a variety of cultures and working practices to the Group. We have evolved highly refined and supportive transfer procedures and our managers are trained in implementing strategies to develop and inspire people. The results are evident in improved sickness and attrition levels and transformed service standards.

Retaining and developing people

To maintain our growth we need to demonstrate our ability to deliver consistent, reliable service. An essential element of this is retaining key people and providing appropriate training.

We invest in giving our employees the right skills to deliver quality service, through 3 main types of training:

→ Specific skills

→ Personal development

→ Professional qualifications.

All training is delivered by the most appropriate channel – online, buddying, coaching or group instruction with the majority delivered by our own training business.

As part of our commitment to equal opportunities, and in recognition of the needs of our diverse workforce, Capita has adopted a family-friendly approach. This encourages flexibility and enables our employees to manage the demands of their job and home. Capita offers flexible working arrangements which benefit both the organisation and employees. These include part-time hours, home working, job sharing, term time working and flexitime.

We have a comprehensive suite of flexible benefits and put great emphasis on encouraging employee ownership through our share savings and ownership schemes.

Succession planning is a key element of our MOB process to ensure that we have the appropriate resources in place to maintain stable leadership and to guarantee service continuity for clients. It is continuously reviewed by the Group Board.

How do we manage and inspire our people?

Managing and inspiring people

Our structured approach to people development encourages and creates motivated, effective teams capable of high performance.

We empower business level managers to manage their teams successfully, and equip them with the necessary tools and training in leadership processes and procedures. We encourage an open culture where ideas are aired regardless of position and shared across similar operations where they may add value.

We attach great importance to healthy two-way communication with an 'open door' policy across the Group, supplemented by more formal communication channels.

Any issues arising within a business unit are resolved locally where possible, or else escalated through the MOB review process to the Divisional Executive Board.

Our people also have the opportunity to communicate their views in an annual employee survey.

We want to foster a 'no blame', safe, fun and rewarding culture because our research shows that this is an effective way of achieving business goals. To recognise success, we run original and entertaining incentive schemes aligned with performance targets. We also have an annual awards programme to recognise exceptional individual and team performance. The awards reflect the key attributes that we see as core to **Capita's ethos – effective team work, innovation, service and community.**

Priorities	Aim	Year end 2006	Year end 2005
Senior management retention (earning over £90k)	To attract and retain the appropriate level of senior management to drive the strategic direction of the Group	91%	92%
Overall employee retention	To attract and retain the right people to deliver Group strategy, maintaining employee retention at or above industry average (81.7%)	82%	81%
Employees by location	To have at least 10% of our people based in India by 2009	3%	1.6%
Diversity of people	To reflect the communities in which we work: → Male/female split → Male/female split for management (earning over £50k) → Ethnic diversity	51% male: 49% female 76% male: 24% female 15% (based on 48% response rate)	51% male: 49% female 78% male: 22% female 14% (based on 40% response rate)
Part time workers	To provide flexible working hours while ensuring maximum flexibility in Group resources	24%	21%

Note: Following the introduction of SAP HR across the Group in 2005, our HR data is now more consistent and complete and as a result some historic figures have been adjusted to provide meaningful comparisons.

How do we do business responsibly?

Capita is committed to managing its business in a responsible manner and making a positive contribution to the wider community. A focus on corporate responsibility flows throughout our business in the manner in which we operate in our marketplace, treat our people, support our local communities and minimise our impact on the environment.

 www.capita.co.uk/society

How do we do business responsibly?

An integral approach

As corporate responsibility (CR) is integral to our business we have touched upon it throughout this report and full details of our approach, targets and progress can be found in our CR report at www.capita.co.uk/society.

Integrating CR into decision making

CR issues arise in the normal, day to day management and growth of our business. As a result, we treat corporate responsibility alongside other key business issues and integrate it into our operational and governance processes. [P pages 26-37](#)

Corporate responsibility is championed from the top, with Group Board members being responsible for each of our 4 impact areas. We also have a Group-wide Statement of Business Principles and a number of CR related policies all of which are supported by the Group Board.

Impact area	Board-level responsibility
Quality of service	Clients – Simon Pilling Joint Chief Operating Officer Suppliers – Gordon Hurst Group Finance Director
Our people	Paddy Doyle Joint Chief Operating Officer
Our communities	Paul Pindar Chief Executive
Environment	Gordon Hurst Group Finance Director

In 2006, a sustainability working group was established comprising Gordon Hurst, Group Finance Director, with the heads of safety, health & environment, risk, procurement, property and facilities management to ensure that the Group is meeting requirements and operating in an effective and responsible manner. We undertake bi-annual site audits and regularly refresh Group standards to ensure ongoing improvement. This is a constantly evolving programme as we have a large number of new sites joining the Group each year, as a result of new contracts and acquisitions.

Due to the nature of our business when we talk about CR we focus on 4 priorities:

[Ensuring quality of service](#)

[Supporting our people](#)

[Reducing our environmental impacts](#)

[Benefiting our communities](#)

Ensuring quality of service

Helping our clients transform the way they do business is not a short term project. When we engage with a client we hope to enter into a long term relationship that supports their business and values. Through building strong, productive partnerships that consistently meet client expectations, we have created a successful and sustainable business of our own.

Capita helps to change the way frontline services are delivered. We are not involved in creating or influencing client policies or objectives and we do not make political donations. But helping our clients adapt to change means they make better use of taxpayer and shareholder funds.

A clear reporting schedule with key performance indicators is written into major contracts and regularly reviewed with the client. Where changing circumstances require, we will also review how we deliver services in order to provide even better service to our clients and their customers.

Supporting our people

We would not have achieved such high levels of sustained growth without a dedicated and competent workforce. Being able to attract, retain and develop talented and ambitious people means we will have the resources we need to help our clients and grow our business. [P pages 50-53](#)

How do we do business responsibly?

Reducing our environmental impacts

Due to the nature of our business, Capita does not have a major impact on the environment. This is confirmed by our FTSE4Good environmental impact rating of 'low'. We nonetheless recognise the value of taking a proactive approach to environmental management. Key measurements of environmental impacts have now been embedded into our management reporting process, focusing on 3 key areas:

- **Waste and resource management** – in 2004 we undertook a survey of waste management at key sites across the Group. This helped to develop more effective waste management policies and future targets.
- **Carbon emissions** – on the basis of a carbon survey undertaken in 2005, we identified energy use and transport as 2 of Capita's most significant environmental impacts. This has informed a number of initiatives including an agreement to purchase green energy for all our sites and switching our fleet vehicles to diesel engines.
- **Supply chain** – we monitor our suppliers' statements of compliance with our Supplier Environmental Code of Practice. We are also working with suppliers to extend the range of recyclable products used by the Group and to implement the EU WEEE Directive with a strong focus on recycling.

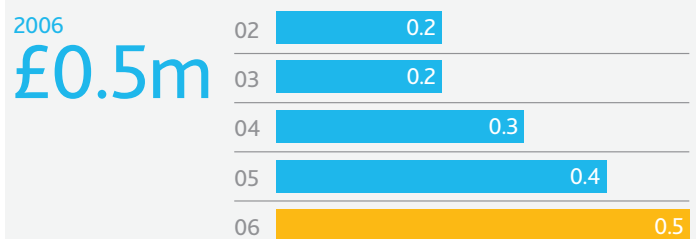
Benefiting our communities

We are actively engaged with the communities in which we work, focusing on support and regeneration. Our interest in corporate responsibility arises from a recognition of the impact our business operations have on society.

We have created a community investment and engagement strategy that focuses on how businesses and employees can make a positive impact on the communities in which they operate. We implement this community strategy through:

- **Local community partnerships** – through our regional partnerships we have helped to increase job creation, local purchasing and investment in community initiatives. Our regional business centre strategy for creating greenfield sites also helps to channel job creation opportunities to deprived areas. Our businesses are also encouraged to invest in and support local initiatives that add social or environmental value.
- **Charitable initiatives** – at a corporate level our charitable strategy is to support initiatives that address social and educational exclusion whether due to disability, economic or social circumstances. Our current charitable partnerships are with the NSPCC and the Prince's Trust and a 3rd charity voted for annually by employees – which was Cancer Research UK in 2006. Fundraising events are arranged centrally and locally and a volunteering scheme is in place to support the Prince's Trust young people programmes.

Charitable donations (£m)



How do we do business responsibly?

Core CR measures	Aim	Year end 2006	Year end 2005
Environment	Continue to measure and assess our carbon footprint to reduce our impact on the environment and help tackle climate change	26,592*	26,592*
	Raise awareness of environmental issues and Group initiatives across the business	Working group set up to monitor requirements and progress	Ongoing awareness programme
	Environmental site audit to be undertaken twice each year	Audits completed	–
	Reduce Capita's overall impact on the environment – achieve 12% reduction in electricity used at our 20 largest sites by 2008	Target set	–
	Continue switching fleet vehicles to diesel engines	95%	90%
	Achieve further ISO 14001 accreditations at our higher impact sites	34	25
	Further promote BT conference call facility	£3m saved on hotel and travel costs	£2m saved on hotel and travel costs
	Further promote Digital Pipeline Initiative where used IT equipment is donated to developing countries	5,000 pieces of IT equipment donated	1,500 pieces of IT equipment donated (5 months)
Communities	Job creation to date	4,000	3,000
	Corporate donations	£0.5m	£0.4m
	Meet our 3 year target of raising £1.5m for our corporate charities	Ongoing	Ongoing
	Maximise the fundraising potential of our Group-wide charity week	£53k	£26k
Health & safety	Ensure we provide safe and productive working environments for all our employees.	58 reportable accidents (RIDDOR)**	42 reportable accidents (RIDDOR)
	Undertake site audits twice each year	Audits completed	–

*Our carbon footprint was calculated in 2004 and will next be calculated in 2007.

**Increase is primarily a result of business growth.

Who do we work with?

We deliver services on behalf of a wide variety of clients in both the public and private sectors. Our clients look to us to improve processes, create new capabilities and transform back office and customer service operations.

We make measurable improvements in service efficiency and quality, reducing costs and adding real value to our clients' operations. How? The simplest way to explain is by illustration. Here are some examples of how we deliver value to our clients...

Who do we work with?

DSG international

Client objective

To enhance the experience of customers contacting the DSGi call centre, to make it a key differentiator in driving sales and customer loyalty. With call abandonment rates at unsatisfactory levels, DSGi felt it was starting to lose business and customers and so turned to Capita for a solution.

Capita's approach

Following a full review and migration process, including the transfer of 860 employees, the contact centre began operating at a vastly improved rate, meeting all contracted service levels ahead of schedule. The results over 2 years have been remarkable, with all stakeholder groups seeing large improvements. Performance improved sharply:

- Customer satisfaction up 18% and number of calls per resolution down 41%
- Store call sales conversion rate up 400%
- Employee satisfaction up 60% and 2 industry awards achieved in 2006.

In 2006, we won a further contract with DSGi to deliver its technical support services, which included the transfer of another 900 employees.

“Over the last 18 months we have built a very strong relationship with Capita and have developed a joint vision of improving our customers' experience with us.”

Mike Hedgecox
Customer and Stores Director
DSG international

Services	Market	Division
→ BPO	→ Private sector	→ Insurance & Specialist Services
→ Customer services		
→ Administration and support		
→ ICT		

BBC

Client objective

Reduce HR costs to release extra resources for programmes as part of radical plans to make the BBC a simpler and more creative digital broadcaster.

Capita's approach

We are working closely with BBC People to deliver many HR services across the corporation, including recruitment, HR advice and administration, and occupational health and disability access services.

- We have set up a new HR Shared Service Centre in Belfast with 110 employees and a number of new technologies to help improve services, which are branded BBC HR Direct
- In the first year of the contract we will have processed over 160,000 applications for over 4,500 jobs, managed induction for some 2,800 new employees, dealt with 3,500 leavers and handled over 170,000 queries from employees and applicants
- Over the life of the contract the BBC expects to save £50m.

“Together with Capita, we are working on a change plan to improve and simplify the delivery of HR administration and advice to the BBC. The HR operation Capita has developed in Belfast represents the first step on that journey.”

Stephen Kelly
Director
BBC People

Services	Market	Division
→ BPO	→ Private sector	→ HR Solutions & Property Consultancy
→ Customer services		
→ Administration and support		
→ Human resources		
→ ICT		

Who do we work with?

Birmingham City Council

Client objective

To establish a long term partnership to deliver ambitious transformation objectives and a world class ICT service, with the aim of significantly improving the delivery of public services.

Capita's approach

We are working with the Council to provide the additional capacity and specialist skills required for major service transformation. Over 500 Council employees have been seconded to a joint venture with Capita and we have made excellent progress in the first year:

- The new ICT network has increased stability and significantly cut costs
- Email is 500% faster despite a 30% increase in traffic and nearly 90% of helpdesk calls are now answered within 20 seconds – up from 40%
- In July 2006 we signed an additional contract to transform Corporate Services, including procurement, finance and business management: due to generate savings of £800m over 10 years, it has already saved £9.5m.

We are supporting the development of business cases for 7 further transformation programmes.

"This Council-wide programme will deliver better, more efficient services to the citizens of Birmingham. The joint venture gives us the capacity and skills we need, with a shared vision and goals."

Stephen Hughes
Chief Executive
Birmingham City Council

Services	Market	Division
→ BPO	→ Local government	→ ICT & Advisory Services
→ ICT		
→ Administration and support		

The Children's Mutual

Client objective

To engage with a partner who could establish a cost effective infrastructure to process Child Trust Funds (CTFs) and administer the scheme from its launch.

Capita's approach

We developed a state-of-the art service delivery platform which enables highly efficient scheme administration:

- To meet the launch date we designed and developed processes and infrastructure from scratch in just 10 months
- Clerical productivity is now 50% higher than in a traditional life and pensions processing area
- Over 95% of applications are processed without manual intervention, ensuring an error free environment and minimising follow-up queries
- In recognition of the scheme's success, The Children's Mutual was awarded Child Trust Fund Provider of the Year at the Investment, Life & Pensions Moneyfacts Awards 2006.

The project's success has led to The Children's Mutual awarding further work to Capita to administer other products such as Growing Up Bonds.

"Capita's ability to provide advanced administration and customer contact services to a wide range of clients and its commitment in extending these service models to our valued customers continues to impress us."

David White
Chief Executive
The Children's Mutual

Services	Market	Division
→ BPO	→ Life & pensions	→ Life & pensions
→ Customer services		
→ Administration and support		
→ ICT		

Who do we work with?

South Oxfordshire and Vale of White Horse District Council

Client objective

To create a shared service for 2 councils to modernise and achieve economies of scale in revenues and benefits administration.

Capita's approach

We are committed to developing new models of partnership that deliver widespread cost savings and substantial service improvements to local authorities. This contract is an excellent example of shared services in action. In the first 6 months of the contract we have already made good progress:

- Created joined-up revenues and benefits services, delivering direct cost savings to both Councils, anticipated to be in the region of £3m
- We are transferring work to processing centres in Kent and Somerset and telephone enquiries to Coventry, achieving savings by using new technology and Capita's business centre infrastructure
- Helped both councils to create true shared service operations in the client unit functions.

“More and more councils are recognising the real benefits of shared service partnerships. Together we are delivering real service improvements and cost savings to residents that could not have been achieved without Capita.”

David Buckle
Chief Executive
South Oxfordshire
District Council

Terry Stock
Chief Executive
Vale of White Horse
District Council

Services	Market	Division
→ BPO	→ Local government	→ Professional Services
→ Customer services		
→ Administration and support		
→ Finance		
→ ICT		

Home Office – Criminal Records Bureau

Client objective

In 2000, Capita was selected to provide a carefully regulated service enabling organisations to gain access to important criminal and other information for recruitment and licensing purposes. We now process 3m applications for information annually, and customer satisfaction is at an all-time high. In 2006, the CRB asked us to help meet growing demand from customers for online access to the status of their applications while providing a platform for future e-products and services.

Capita's approach

We developed an online tracking product based on an accredited e-infrastructure designed to support future online services.

- Rigorous testing and accreditation ensured the security of CRB Disclosures
- The service received over 73,000 hits in the first month and won extremely positive feedback from customers.

“I am immensely proud of the work we have now completed together. Launching the service was one of our key strategic objectives for this year. It marks the beginning of a journey which will bring greater efficiencies to our processes and benefits to our customers as more and more services are delivered electronically.”

Vince Gaskell
Chief Executive
Criminal Records Bureau

Services	Market	Division
→ BPO	→ Central government	→ Integrated Services
→ Customer services		
→ Administration and support		
→ ICT		
→ Advisory services		