

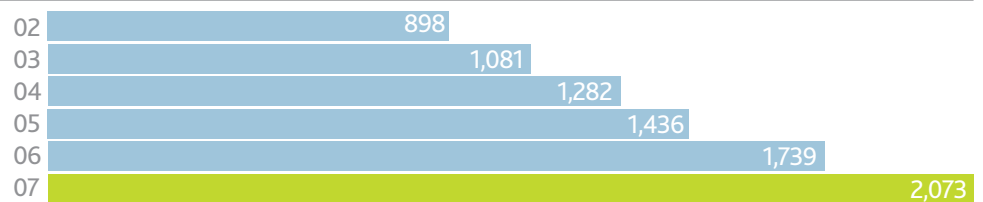
Performance for the year

Capita performed strongly in 2007 with a record level of new major contracts in the year. We enter 2008 with confidence. There is strong demand for outsourcing and our businesses across the Group are experiencing good trading conditions.

Turnover (£m)

£2,073m
+19%

5 year compound growth 18%

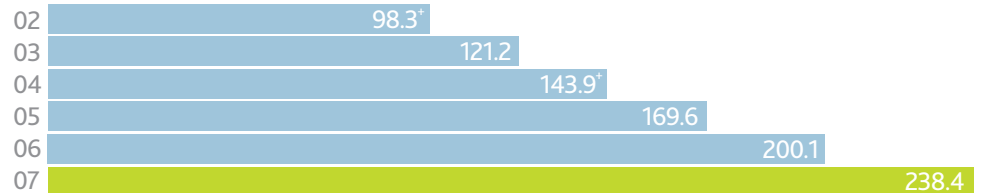


Profit before tax, amortisation and impairment (£m)

£238.4m
+19%

5 year compound growth 19%

*excluding exceptional items

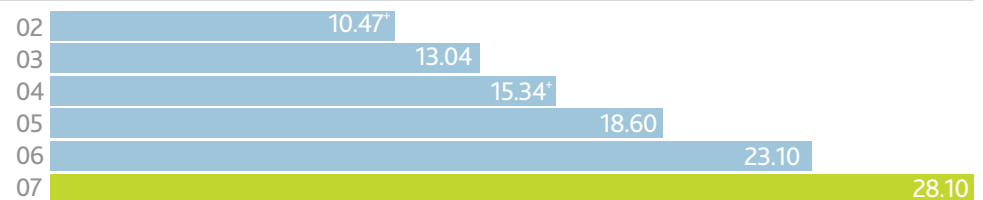


Earnings per share before amortisation and impairment (p)

28.10p
+22%

5 year compound growth 22%

*excluding exceptional items

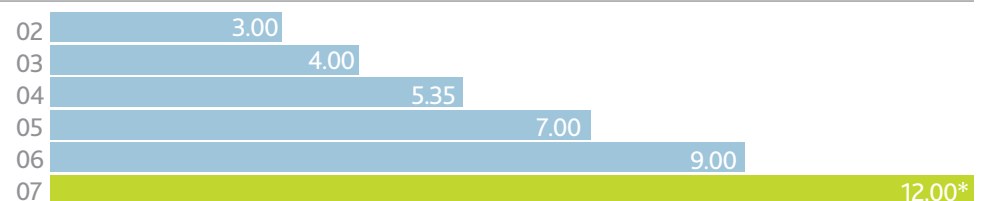


Total dividend per share (p)

12.00p
+33%

5 year compound growth 32%

*excluding special dividend



Our performance in 2007

Capita performed strongly in 2007. Organic growth was excellent with businesses across the Group performing well and with a record level of new major contracts secured in the year.

In the year ended 31 December 2007, turnover increased by 19% to £2,073m (2006: £1,739m). Operating profit before amortisation rose by 21% to £271.3m (2006: £225.1m) and profit before taxation and amortisation increased by 19% to £238.4m (2006: £200.1m). Earnings per share before amortisation grew by 22% to 28.1p (2006: 23.1p).

Operating cash flow rose by 20% to £334m (2006: £279m). We have increased our total dividend for the year by 33% to 12.0p (2006: 9.0p). Additionally, we paid a special dividend of 25p per share in October 2007, returning £155m to shareholders. We have also returned a further £44m to shareholders through purchasing our own shares. In total, including the proposed final dividend, we will be returning £272m (2006: £279m) to shareholders in respect of the 2007 financial year.

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 14–20.

Generating profitable growth

We generate profitable growth by winning business from new and existing customers and supplement this by acquiring businesses that broaden our skill base and extend our market reach.

Major contracts: Our sales performance in 2007 was excellent. We secured eight major contracts with a total value of £1.89bn (2006: £1.37bn) and we maintained our one in two win rate. See page 08 for further details.

In the first eight weeks of 2008, we have been awarded major contracts with an aggregate value of £314m.

This included two general insurance contracts with Marsh Ltd and British Islamic Insurance Holdings, an additional contract with eircom and an extension to the Teachers' Pension Scheme contract.

Bid pipeline: In the three months to the end of February 2008, awards have been made regarding £1.5bn of contract opportunities in our bid pipeline of which Capita has won 68% by value. As a consequence, our bid pipeline in February 2008 stands at £2.5bn (Feb 2007: £2.6bn) but is already being replenished at a healthy rate, reflecting the quality of business opportunities across our markets.

Behind this is an active prospect list of opportunities which are yet to reach a shortlist stage.

Contract renewals: There are now no material contracts (defined as having annual revenue in excess of 1% of 2007 turnover) due for renewal in 2008 and 2009 as described on page 11.

Stimulating growth through acquisition: A key element of our growth is the acquisition of small to medium sized companies which extend our presence in existing marketplaces or provide a foothold in a new market. In 2007 we completed 12 acquisitions and investments. These are described on page 12.

Increasing scale and capabilities of our offshore operations: Our offshore operation in India has played a significant role in helping to secure major new business, including our contracts with Resolution, Prudential and Marsh. By the end of 2008, we expect to grow the offshore business to 3,000 staff, a year ahead of plan, and will have achieved a major step forward in scale which can be leveraged to benefit the Group and our clients. We have described our offshore operations in more detail on pages 26–27 and 45.

Valuing our people

Our success is driven by our people. They play a vital role in helping us meet client expectations and supporting our growth. The Board would like to thank everyone across the Group for the role they play in Capita's success. We applaud and thank you all warmly for your enthusiasm, hard work and commitment to service excellence.

Group Board changes

With effect from 1 March 2008, Martin Bolland joins Capita as Non-Executive Director. Martin is a Chartered Accountant and spent the last 10 years working with Alchemy Partners LLP, a private equity house, of which he was a founding partner. Martin's appointment represents a significant addition to our Board and we look forward to his contribution to the team.

At the end of September 2008, Peter Cawdron will be standing down as Non-Executive Director, after serving 11 years on the Group Board. Peter has been a valuable member of the Board. We will miss his input and wish him every success for the future.

Future prospects

We enter 2008 with confidence. There is strong demand for outsourcing and our businesses across the Group are experiencing good trading conditions.

Our successes in 2007 and progress in the first few weeks of this year underpin our continued growth in 2008. With healthy sales prospects and consistently good operational performance, we are positioned well for further strong performance thereafter.

Our business goal and strategy

Our goal is to deliver value to all our stakeholders

Our straightforward goal is to continue developing Capita as a long term, sustainable business that can deliver value to all its stakeholders:

- Delivering operational excellence and added value for all clients
- Achieving a good return for shareholders
- Creating a supportive, rewarding and inspiring environment for employees
- Developing mutually beneficial relationships with suppliers
- Making a positive impact on the communities in which we work.

Our strategy is clear, straightforward and pragmatic

To meet the needs of all our stakeholders now and into the future, we have created a clear, straightforward business strategy.

Our business strategy focuses on five 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. Controlling and measuring growth

through strong leadership and clear business practices

- Maintaining a robust management and operating structure led by a stable, inspiring team
- Working to clear KPIs, with strong financial controls and effective governance
- Employing careful risk management.

3. Managing our business responsibly

to meet the needs of all our stakeholders

- **Shareholders:** delivering shareholder value
- **Clients:** building scale and capacity to support and benefit our clients
- **People:** actively managing our resources to meet current and future business needs
- **Suppliers:** securing and managing successful supplier relationships
- **Communities:** undertaking socially responsible business practices.

4. Targeting growth markets

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 nine chosen market sectors.

5. 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
- Investing in service and product development, appropriate sales and marketing activities
- Maintaining a simple, pragmatic divisional structure to ensure the best resources are deployed Group-wide.

Our business goal and strategy

1. Generating profitable growth

We generate profitable growth by:

A. Driving organic growth: we concentrate on organic growth, winning business that provides long term recurring revenues from new and existing customers in the UK and Ireland.

B. Stimulating growth through acquisitions: we supplement organic growth by acquiring businesses that broaden our skills base, consolidate our market position or take us into new market segments.

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

Transforming criminal records for the Home Office

The Criminal Records Bureau (CRB) gives employers information to 'facilitate safer recruitment and protect the vulnerable'. In August 2002, it replaced local police checks across the country with a national service, collating data from a variety of sources. We're responsible for designing, building and maintaining its fully integrated IT and administration infrastructure.



New IT infrastructure



Robust business processes

Priorities for 2008: Generating profitable growth

Organic growth

- Identify beneficial new business opportunities across the Group
- Address opportunities selectively
- Maintain competitive differentiation
- Maintain bid process disciplines to secure appropriate pricing and contract terms
- Track success and future opportunities
- Retain and expand contracts through client satisfaction.

Acquisitions

- Select acquisitions that complement or grow our business offering and market reach
- Maintain rigorous criteria and disciplines for selecting targets and agreeing pricing
- Maintain and continue to enhance integration processes.



Strong partnership



99.5%

delivery vs 93% target

The IT infrastructure we've created can process over 70,000 applications a week and issue over 120,000 documents a month. The CRB now issues 99.5% of standard disclosures within 10 days, well ahead of its 93% public service standard.

In 2005 we implemented the Interim Police Cross Reference service. This pulls together over 54m records from 43 police forces, central government files and the Police National Computer, offering recruiters significantly greater security. Since then we've installed the CRB's new e-platform and launched its first e-service, Online Tracking – now logging over 600,000 enquiries a month.

Some 85% of customers now find CRB information useful in making recruitment decisions, and the bureau has shown its satisfaction by giving us a key role in the service's future strategy.

Our business goal and strategy Generating profitable growth

1A. Driving profitable organic growth

Our organic growth is driven in two ways:

The majority comes from securing high quality, recurring revenues from long term contracts that deliver multiple, integrated support services. The length of these contracts has consistently increased and now average nine 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 two to seven years.

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

Identifying and securing beneficial new business opportunities across the Group

We actively identify 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 opportunities to generate real business value for organisations. We generally identify these through business intelligence and relationships, and the procurement process is determined by each individual customer.

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 more than £10m over the term of the contract. It can draw on the resources of the whole Group to design integrated solutions tailored to each client.

Sales teams in each business unit of each division pursue contracts usually focused on a single service. Where these are worth over £10m, the major sales team may provide extra support.

Addressing opportunities selectively

Major bids are costly, in time and resources. Public sector procurement processes are highly defined and can take up to two years to complete; private sector procurements can vary in length due to changing corporate priorities and differing procurement processes. We are highly selective throughout the bid process, only bidding where we believe we can build a sensible working relationship which will deliver benefits to both the client and the Group.

Major new contracts and extensions secured in 2007: £1.89bn (2006: £1.37bn)

Client		Value (£m)	Term (years)	Division
Countrywide	New	19	15	Life & Pensions
Swindon Borough Council	Enlarged	243 (Initial value: 140)	15	Professional Services
Southampton City Council	New	290	10	Professional Services
OSPT	New	12	10	Financial Services
Birmingham City Council	New	142	10	ICT & Advisory Services
Resolution	New	580	12	Life & Pensions
Co-Operative Insurance (CIS)	Enlarged	270 (Initial value: 250)	10	Financial Services
Prudential	New	722	15	Life & Pensions

Critical selection factors include:

- Defined bid process with clear decision criteria, set by clients with whom we can build a strong relationship
- Fit with our core competencies in service transformation
- Limited requirement for capital investment, unless there is a real value proposition for the Group
- Fair risk/reward balance
- Acceptable contractual obligations.

If we feel, at any point during the bid process, that any of these factors has significantly changed and become unacceptable we will withdraw from the process. It is essential that we maintain our discipline of securing contracts that will generate value for both our clients and the Group over the term of the contract.

Maintaining competitive differentiation

Our clients are highly selective when choosing to engage an outsourcing partner.

Outsourcing has evolved rapidly over the past 10 years, from delivering cost driven, single service solutions to creating complex transformational partnerships. These partnerships between outsourcer and client are focused on fundamentally changing the client's operational model to increase effectiveness, maintain competitiveness and add real value to both parties.

We have built up an unrivalled set of skills and infrastructure and have consistently led and helped shape the market by developing our outsourcing offering. We are able not only to respond to clients' unique requirements but also to propose alternative service models that can deliver even greater benefits.

When clients outsource large scale functions or services they want to partner with an organisation with a solid financial and performance record. Our knowledge base and geographical and technical infrastructure have taken over 20 years to build. 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. Together, these elements clearly differentiate us from our competitors and are significant barriers to entry for new participants in all our markets.

We consistently provide:

- Market expertise
- Financial strength and stability
- Depth and flexibility of expert resources
- Extensive and flexible infrastructure
- A wide range of ICT solutions
- Onshore, nearshore and offshore delivery options.

We have an established track record of delivering:

- Business process efficiencies
- Consistent service delivery
- Step changes in service quality improvement
- Practical application of innovation
- Economies of scale
- Cost savings
- Added value services.

Extensive infrastructure, flexible delivery

55 Business centres

Our extensive infrastructure of business centres onshore, nearshore and offshore, allows us to deliver services in the most effective and appropriate way. As we increase our economies of scale through our growing infrastructure, we drive down our operating costs, add greater value and flexibility to our clients and increase our competitive advantage.



Our business goal and strategy Generating profitable growth

Maintaining bid process disciplines to secure appropriate pricing and contract terms

Our major contracts are long term commitments. On average they last nine years, so we need to get our pricing and contract terms right to deliver value to both the Group and our clients.

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; sales support teams develop pricing and risk models. On all major bids, pricing is agreed by the Group Board.

Tracking success and future opportunities

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

Because our bid success rate is one in three over the long term – and currently one in two – 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 2008, our bid pipeline was £2.5bn (February 2007: £2.6bn).

Growing client relationships

Prudential

We deliver a range of life and pension sales and administration services for Prudential UK's business. We've been successfully providing a full range of services for Prudential's international cross border life assurance portfolio of new and existing business since 2003, and in 2006 we signed an outsourcing agreement to deliver end-to-end support for Prudential's UK life and pensions business from their Belfast operation. In November 2007 we signed a contract to administer 7 million mature life and pensions policies including group and individual pensions, investment bonds and life and endowment policies. The contract is worth approximately £722m over 15 years.



Retaining and expanding contracts through client satisfaction

Renewing or expanding existing client relationships is the most efficient way to win business.

We concentrate on generating client satisfaction by meeting expectations and delivering value. We share thinking and expertise across our operations to ensure that we can provide clients with the highest standards of service. As a result we are well placed for clients to extend and expand their relationships with us.

We successfully renew the great majority of our contracts when they come up for renewal. In our 24 year history we have only failed to renew three of our material contracts (defined as generating more than 1% of the previous year's revenue). These were contracts to deliver the Driving Theory Test, Office Services for the Department of Work and Pensions and the London Congestion Charging Scheme. We face no material rebids until 2010.

Impending rebids of existing material contracts*

Year	Contract	Value per annum (£m)
2008	None	
2009	None	
2010	DCFS: National Strategies	35
2011	None	
2012	TV Licensing	50
2012	CRB	40

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

To measure the improvement in service to clients and their customers we agree detailed service standards and key performance indicators. 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.

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. We not only broaden existing contracts, we are also successful in winning additional contracts to support further areas of our clients' operations.

By delivering operational excellence and adding 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.

Transforming civil engineering and transport in Wales

In 2002, we joined forces with Torfaen, Blaenau Gwent, Caerphilly County Borough Council and Monmouthshire County Council to form Capita Gwent Consultancy. This unique joint venture provides a range of civil engineering and transportation services previously undertaken by the individual councils.



Quality management



Continuous improvement



£400k

profit in one year, against a projected £640k loss

Capita Gwent Consultancy now manages £350m of spending on some 1,400 projects and transportation initiatives including highway projects, PFIs, rail and community regeneration schemes. Working not only for, but alongside authority staff, the joint venture operates a quality management system designed to encourage creativity and innovation and build on past project experience.

In just one year, its culture of continuous improvement turned a projected £640,000 loss under the old arrangements into £400,000 profit for reinvestment, while also cutting service costs by 5%. We're now on course for a 27% increase in operating profits: good news for service users as 70% of profits are reinvested. The partnership continues to grow and aims to double in size by 2012.

Our business goal and strategy Generating profitable growth

1B. Stimulating growth through acquisitions

We stimulate growth through acquisition

We focus on acquiring small to medium sized businesses that will support and supplement our organic growth by enhancing our existing offering or market reach.

Selecting acquisitions for growth

Acquisitions have consistently played a key role in stimulating our growth. We seek acquisitions that will either strengthen and enhance our current position or provide a foothold in a new market segment where we can generate further growth. For example, we have entered markets such as education, life and pensions and financial services with an initial acquisition, then swiftly built significant capabilities and generated good returns through a mixture of further acquisitions and contract wins.

We now have a strong presence in nine target markets where we continuously look to acquire businesses that will strengthen our market positions, bring complementary skills and services and provide opportunities to create further economies of scale, or expand our current reach.

To stimulate growth we seek target acquisitions that:

- Have operations and customers in the UK and/or Ireland
- Fit with our strategy and core competencies
- Generate sustainable, quality revenue.

In 2007, we spent £114m on 12 acquisitions and investments. While continuing to be highly selective, we anticipate a similar volume of small to medium sized transactions in 2008.

Acquisitions and investments in 2007

Company	Service	Division	Value (£m)
Spectrum	Software	Professional Services	1.75
Harry Weeks Travel	Travel admin	Integrated Services	21 + 12
CPFR Solutions	Software	Professional Services	3 + 10
Global Fund Administration	Fund admin	Financial Services	2 + 2.5
NHS Partners	Resourcing	HR Solutions & Property Consultancy	1.9 + 0.9
CMGL	Insurance	Insurance & Specialist Services	32
MVRA	Insurance	Insurance & Specialist Services	1.3 + 1.6
TMG*	Legal services	Insurance & Specialist Services	8 + 8.5
PwC CI Trust Business	Trust services	Financial Services	12.75
Higham Dunnett Shaw	Pensions admin	Life & Pensions	15
Aspen	Pensions admin	Life & Pensions	7.4
McKeags*	Legal services	Insurance & Specialist Services	7 + 5

*investment

Total spent on 12 acquisitions and investments in 2007: £114m (2006: £48m, 11 acquisitions and investments)

Applying rigorous criteria when selecting targets and agreeing purchase prices

Potential acquisitions are brought to the Group by external consultants or, increasingly, by people within the Group. We are highly selective: in the past year we assessed some 100 acquisitions and investments but proceeded with only 12. Due diligence is undertaken at both Group and business level. All acquisitions are assessed and agreed by the Group Board.

Capita has a track record of acquiring and successfully integrating small to medium sized businesses that stimulate growth. We tend to select acquisition targets that are:

- Privately owned
- Too small to interest the private equity market
- Not in an auction – we aim to acquire without competition
- Attractively priced, with scope to add value for shareholders.

This enables us to negotiate sensible purchase prices and terms, and so generate good returns for the Group.

Integrating acquisitions successfully

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, information and communications technology (ICT), HR, legal, compliance and marketing quickly into line with our standards, using Group systems and resources where appropriate.

Acquiring only small to medium sized businesses enables us to integrate the new operations into our existing business infrastructure with little disruption and generally allows us to generate value faster.



Adding value through acquisitions

Trustee Services

In 2000, our trust administration business comprised just eight staff acting as trustees for debentures & loan stocks issued by customers. Revenues were £1m. In May 2001 we bought Royal & Sun Trust Companies, and over the next few years went on to consolidate our position in the market with the acquisitions of Channel House, Stirling Trustees, PwC Channel Island Trustee Operations and Nieuwenhuis Services for a total acquisition spend of approximately £40m. Today we have over 260 staff working out of offices in London, Dublin, Jersey, Guernsey and Amsterdam, with expected revenues of £29m in 2008.

2. Controlling and measuring growth

We concentrate on generating steady, controlled growth

To deliver our long term contracts successfully and fuel future growth, we need strong leadership and clear business practices. These are essential to creating a financially stable organisation capable of supporting sustained growth and delivering healthy investor returns.

Our growth is underpinned by the following disciplines and these remain our priorities for 2008:

- A. Maintaining strong structure and control through robust management and operating structure.
- B. Focusing on clear financial key performance indicators (KPIs) with strong financial controls and effective governance.
- C. Maintaining careful risk management consistently throughout the Group.

Transforming Birmingham City Council

Service Birmingham is our joint venture with Europe's largest local authority, Birmingham City Council. By providing world-class information and communications technology (ICT) systems Service Birmingham is transforming the way the Council operates, improving services, cutting costs and increasing job satisfaction.



World-class technology



£2m investment in new servers

Financial KPIs for 2007

KPI	Aim	Progress 2007	2006
Operating margins	Maintain and strengthen margins	13.1%	12.9%
Free cash flow	Maintain strong free cash flow	£184m	£154m
Return on capital employed (ROCE)	Achieve steadily increasing ROCE which exceeds our cost of capital	19.6%	18.5%
Economic profit	Achieve steadily increasing economic profit	£110m	£89m
Gearing – interest cover	Maintain a conservative and efficient capital structure, with relatively low gearing	8x	9x
Capital expenditure	Keep capital expenditure at or below 4% of revenue	3.5%	3.6%



Further service transformation contracts

£1bn

projected savings over 10 years

Since April 2006 we've implemented major enhancements to the Council's ICT infrastructure, including a £2m investment in a new server estate. We've consolidated seven service desks into two and are rationalising 550 applications to 150. As a result, email speed is up 500%, traffic has grown 30% and reliability has increased significantly. The number of help desk calls now answered within 20 seconds has increased from 40% to nearly 90%.

Impressed by this performance, the Council has expanded our role. In 2006 we won additional contracts to support more investment in frontline services, transforming the way the Council interacts with citizens and stakeholders and further increasing customer satisfaction. Our goal now is to deliver total cost savings of £1bn over 10 years.

Our business goal and strategy Controlling and measuring growth

2A. Maintaining strong structure and control

Our management structure and business reporting process promote accountability and knowledge sharing across the Group, keeping management responsive to issues and trends in the business and the wider marketplace.

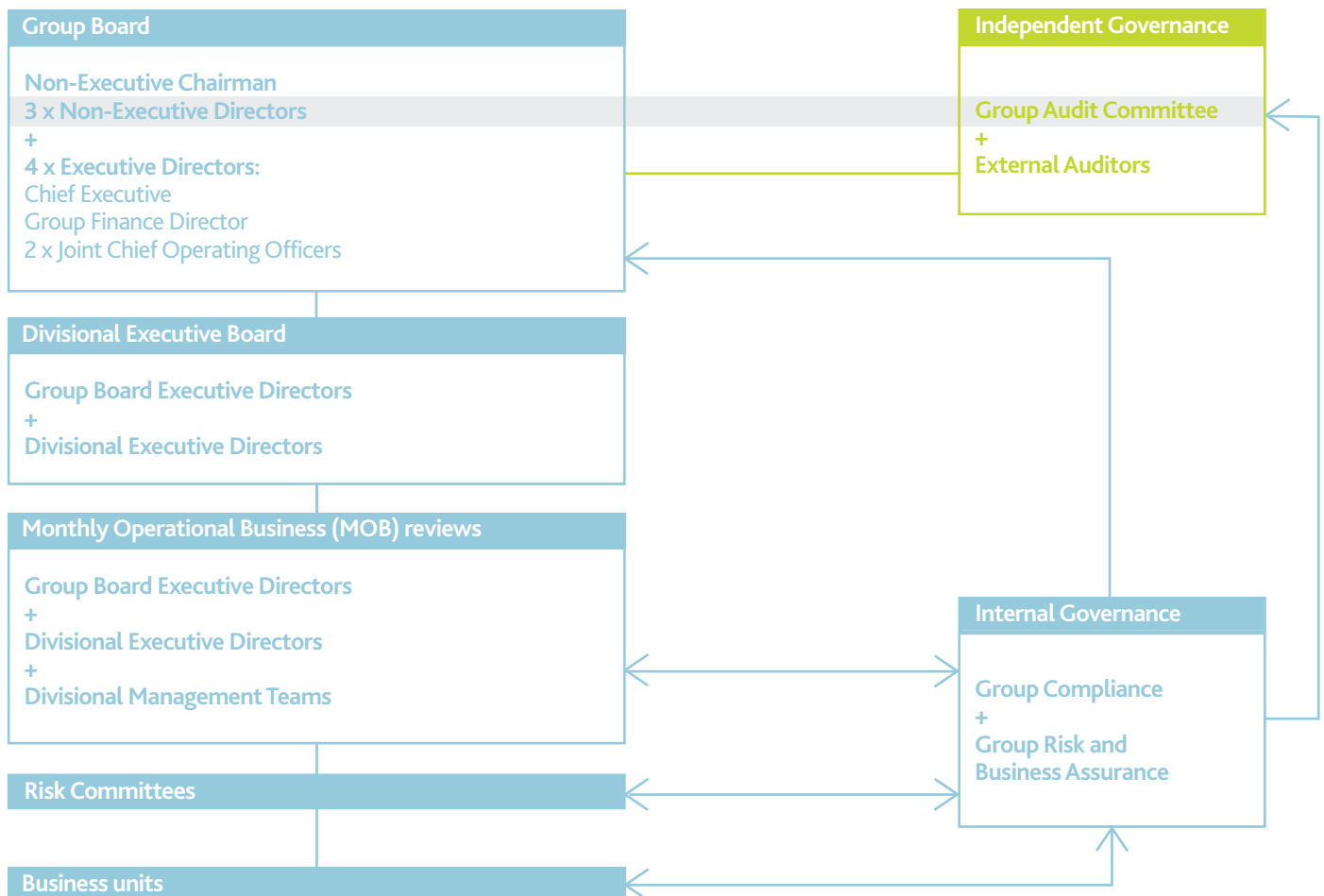
The **Group Board** comprises a Non-Executive Chairman, three Non-Executive Directors and four Executive Directors – Chief Executive, Group Finance Director and two Joint Chief Operating Officers. The Board is responsible for establishing, maintaining and reviewing the Group’s growth strategy, financial performance and systems of internal control.

The **Divisional Executive Board** comprises the Group and Divisional Executive Directors. It sets, communicates and monitors the application of Group-wide policies, procedures and standards.

The **Joint Chief Operating Officers and Divisional Executive Directors** are responsible for the development and performance of the 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.

Monthly Operational Business (MOB) reviews focus on the performance of each business unit in each division. Each division holds pre-MOB reviews where 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. These are forums to share knowledge and challenges, develop tactics, reallocate resources and refresh strategies to meet or exceed business plans. Group Board Executive Directors attend divisional MOB’s, ensuring they have a detailed knowledge of the progress of the divisions and a monthly view of actual and anticipated performance against business plans.



2B. Focusing on clear financial 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 the way we build consistent, long term value for our shareholders.

We focus particularly on KPIs in six areas: operating margins, free cash flow, capital expenditure, return on capital employed (ROCE), gearing and economic profit.

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. To achieve this we:

- Focus on adding value and applying innovation
- Use our increasing economies of scale
- Focus constantly on our cost base
- Offshore back office activities to India
- Increase the utilisation of our business centres
- Apply and share technology.

In 2007, we continued our long term trend of improving operating margins (before amortisation) with an annual increase of 14 basis points (bpts) to 13.1% (2006: 19 bpts to 12.9%). This is due to a combination of factors including operational leverage, increased use of offshore facilities, and a continued focus on sharing IT platforms and rationalising infrastructure.

Cash flow

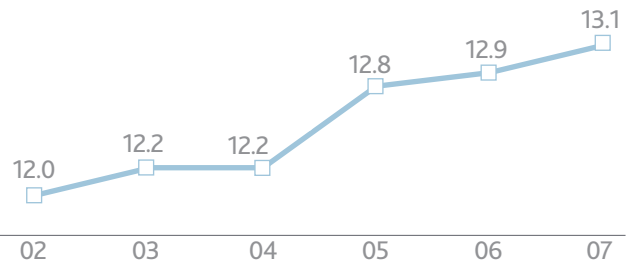
Aim: to maintain strong operating and free cash flow. In 2007, we generated operating cash flow of £334m, representing an operating profit to cash conversion rate of 123%. Our free cash flow, defined as operating cash flow less capital expenditure, interest and taxation, increased by 19% to £184m. Our 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
- Maintaining an efficient internal finance function.

Operating margins

Annual increase

14 bpts



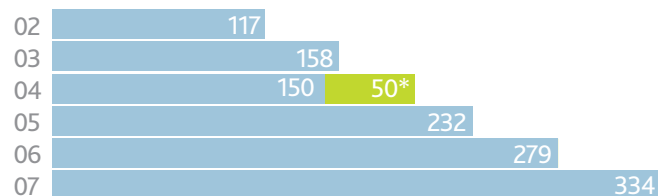
Operating cash flow (£m)

Annual growth

20%

5 year compound growth

23%



*exceptional pension payment

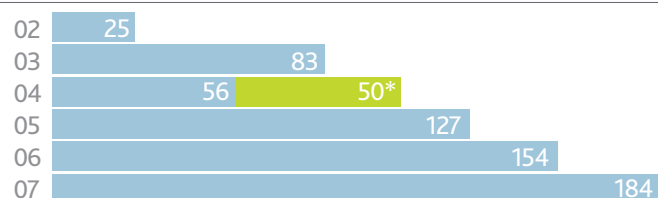
Free cash flow (£m)

Annual growth

19%

5 year compound growth

49%



*exceptional pension payment

Our business goal and strategy Controlling and measuring growth

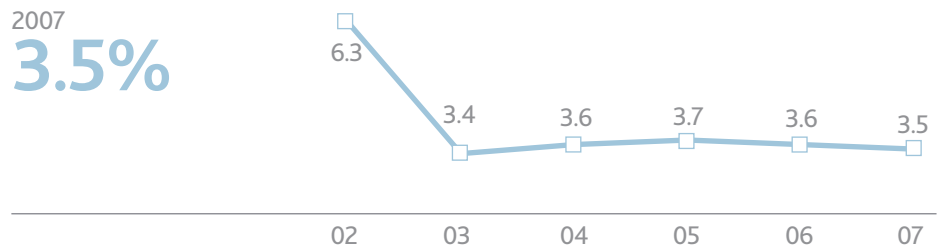
Capital expenditure

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

In 2007 we met this objective, with net capex at 3.5% of annual revenue.

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 our financial strength as a competitive advantage.

Capex as % of turnover

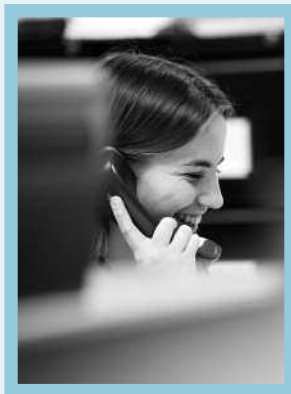


Transforming TV Licensing

In July 2002 the BBC transferred the management of the TV Licence scheme from the Post Office (then Consignia) to Capita. Our role includes processing queries, applications and payments, maintaining an accurate licence database and identifying licence evaders.



Transfer of 1,500 staff to Capita



New customer contact centre



330,000
more licence sales in two years

A dedicated team oversaw the transfer of 1,500 staff to Capita. But we felt the existing operation was insufficient to deliver the service, so during the transition phase we designed, built and staffed a new customer contact centre in Darwen and moved TV Licensing's head office and 600 staff to new premises in Bristol.

Since then we've moved from licence enforcement to a more proactive, sales focused approach, including a successful sales operation which has created 110 new jobs. Working closely with our partners, we've reduced the rate of evasion from 5.7% to 5.1% and raised the proportion of Direct Debit customers by 21%. In the past two years we've also generated an extra 330,000 TV licence sales.

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.

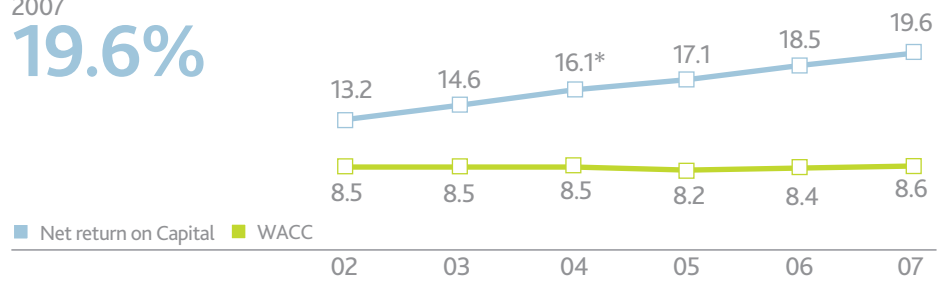
In the adjacent chart, the weighted average cost of capital (WACC) indicates the return that could be expected from the capital invested in the business. It is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our WACC assuming a risk free rate of 4.45%, an equity risk premium of 5.4% and a Beta of 0.89%.

During 2007, our post tax return on average capital employed improved to 19.6% (2006: 18.5%). This compares to our estimated WACC which is 8.6%.

Net return on capital %

2007

19.6%



	2002	2003	2004	2005	2006	2007
PBIT (£m)	107*	131	156*	183	225	271
Average capital (£m)	575	645	696	776	880	998
Tax (%)	29.1	28.1	28.1	27.7	27.7	27.7

*excluding exceptional items

Growing resources

Our people

The number of people employed by Capita has grown rapidly over the last five years due to a number of large acquisitions, contract wins, and underlying growth of the business. We've moved from 15,000 employees in 2002 to approximately 30,000 today, a trend that looks set to continue into the foreseeable future.



Our business goal and strategy Controlling and measuring 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 seven times.

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 we have created value.

2C. Maintaining careful risk management

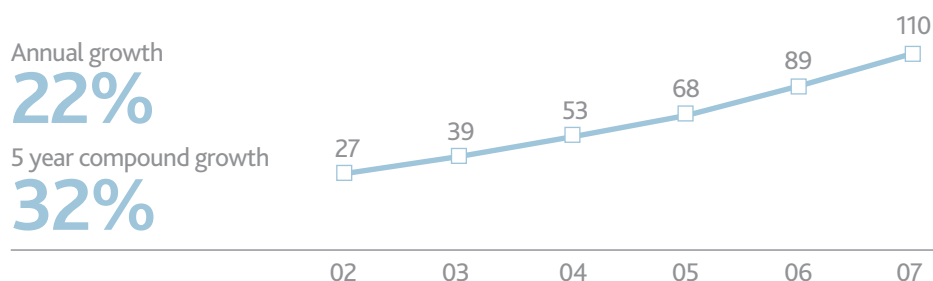
Systems and procedures are in place across the Group to identify, assess and mitigate major business risks that could impact the delivery of our growth strategy. Monitoring our exposure to risk is an integral part of the MOB process, described on page 16. Across our regulated businesses this is supplemented 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. See information on pages 16, 21 and 53.

Balance sheet gearing

	2007	2006
Net debt		
Bond debt (£m)	479	379
Bank facilities (deposit)/drawn (£m)	45	(9)
Loan note (£m)	2	22
Total net debt (£m)	526	392
Interest cover	8x	9x
Net debt to EBITDA	1.7	1.5

Group economic profit (£m)



	2002	2003	2004	2005	2006	2007
PBIT (£m)	107*	131	156*	183	225	271
Avg capital (£m)	575	645	696	776	880	998
Tax (%)	29.1	28.1	28.1	27.7	27.7	27.7
WACC (est %)	8.5	8.5	8.5	8.2	8.4	8.6
Capital charge (£m)	(49)	(55)	(59)	(64)	(74)	(86)
Tax (£m)	(31)	(37)	(44)	(51)	(62)	(75)
Economic profit (£m)	27	39	53	68	89	110

*excluding exceptional items

Risk category	Risk mitigation	2007 update
New contracts	<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 → Secure appropriate pricing and contract terms to ensure fair risk/reward profile → Detailed, tailored transition process to ensure continuity of service and retention of staff. 	→ Ongoing
Acquisitions	<ul style="list-style-type: none"> → Aligned with core competencies and financial targets → Rigorous, risk-based due diligence process → 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. 	→ Ongoing
Operational risk	<ul style="list-style-type: none"> → Escalated via the MOB process and Risk Committees to Divisional Executive Board and Group Board as appropriate → Processes and appropriate multiple operating performance indicators in place across all businesses/contracts → Key Group forums in place strengthening operational risk support in the areas of: <ul style="list-style-type: none"> – Information Security – Business Continuity – Payment Card Industry compliance → Particular focus on information security and developing policies, procedures and raising awareness across the Group. 	<ul style="list-style-type: none"> → Regular security risk assessments are carried out in areas that manage sensitive customer data to ensure the strongest levels of security are in place → Recent national events such as flooding, transport disruptions and epidemics have been learnt from and developments made to existing business continuity plans to deal with more frequent major incidents.
Fraud	<ul style="list-style-type: none"> → Mitigating policies and procedures are promulgated by the Group Risk and Business Assurance function in conjunction with Group compliance. 	<ul style="list-style-type: none"> → The Group's tailored fraud awareness computer based package has been updated and is being rolled out as refresher training across all business units → Fraud benchmarking exercises are regularly carried out in key areas of the Group to constantly assess levels of fraud prevention in place against current best practice.
Regulatory and legislative impacts	<ul style="list-style-type: none"> → Monitored by the 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 → 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. 	<ul style="list-style-type: none"> → Financial services regulation is monitored by the Group Compliance function reporting directly to the Group Finance Director and independently to the Group Audit Committee → Review and communications process of other regulatory and legislative change that impacts the Group is dealt with by the relevant business area (i.e. Group HR, Group Legal, Group Risk etc).
Financial	<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 the Executive Divisional Board → 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. 	→ Ongoing
Attracting and retaining staff	<ul style="list-style-type: none"> → Investment in training and development <ul style="list-style-type: none"> – Competitive, appropriate incentive schemes – Succession planning is a key element of MOB process. 	→ Continual development of our screening and reference process for all staff.
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. 	→ Centralised proactive and reactive PR team to promote Group, separate businesses and manage communications regarding issues.
Procurement	<ul style="list-style-type: none"> → Active supplier engagement and management processes. 	→ Supplier registration and approvals processes are in place. A new Supplier Development Programme for key strategic suppliers has been implemented in 2007.

3. Managing our business responsibly

We are committed to growing the business in a transparent and socially responsible way that is sustainable for all stakeholders over the long term.

We focus on five main areas and these remain our priorities for 2008:

- A. Delivering value to shareholders
- B. Building scale and capacity to support our clients and share economies of scale
- C. Managing resources well by actively attracting, developing and growing our workforce and their skills
- D. Creating successful supplier relationships to ensure quality, responsible and cost effective partnerships across the Group
- E. Supporting the communities in which we work and controlling our environmental impacts through socially responsible business practices.

Transforming the Teachers' Pension Scheme

Outsourcing the Teachers' Pension Scheme to Capita in 1996 saved the Exchequer over £20m during our first seven-year contract. So it's perhaps not surprising that we won a second contract after a competitive tender in 2003 to run the service for a further seven years.



New contact centre



Improvements in productivity

Business KPIs for 2007

KPI	Aim	Progress 2007	2006
Managing resources well	Maintain high retention rates for senior managers (earning over £90k p.a.)	89%	91%
	Maintain overall employee retention at or above industry average (81.9% ¹).	82%	82%
Building scale & capacity	Continue to grow our infrastructure of business centres to meet the needs of our growing business.	55 business centres	52 business centres
Create successful supplier relationships	Audit all existing tier one suppliers against Capita's standards of business – 50% of suppliers to be audited by end 2007. New target set for 60% of suppliers to be audited by end 2008.	41% suppliers audited	Supplier audit commenced
Socially responsible business practice	Continue to measure and assess our carbon footprint to reduce our impact on the environment – new benchmark established to be measured annually.	58,523 tonnes	not available ²

¹ CIPD 2007

² last measured in 2004 across a different set of sites



New business generation

48%

cut in costs

Before we began running the Teachers' Pension Scheme for the Department for Children, Schools and Families, member queries were answered in weeks rather than days. Files could easily be misplaced, leading to low productivity.

We set up a single contact centre for all customer queries, and added email and online communications channels. While almost halving the staffing requirement from 450 to 250, we generated enough new business to redeploy 98% of potentially redundant employees to other pensions contracts. We actively encourage staff to pursue professional qualifications, and ISO and liP accreditation have contributed to a staff retention rate of 97% and average service levels of 98%. Having cut operating costs by 48% from some £17m to under £9m a year, we're currently working to generate further savings.



Our business goal and strategy Managing our business responsibly

3A. Delivering shareholder value

Through maintaining a strong structure and controls, focusing on clear financial KPIs and applying consistent, careful risk management, we succeed in creating sustainable growth and delivering healthy investor returns (see pages 14–20).

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

I. Funding acquisitions where we see opportunities to add value

In 2007, we invested £114m in 12 acquisitions and investments and our pipeline of potential target acquisitions remains at a healthy level. While continuing to be extremely selective, we anticipate a similar volume of small to medium sized transactions in 2008. See pages 12–13 for further details.

II. Distribution to shareholders through dividends

The Group dividend strategy is to return surplus cash to shareholders through a combination of progressive dividends and, when appropriate, capital returns.

Regular dividends: A key element in the creation of shareholder value is a progressive dividend policy. Over the five years to 31 December 2007 we grew our dividend at a compound annual rate of 32%. Our confidence in the strength and resilience of our business model has allowed us to reduce annual dividend cover gradually: for 2007 we continued this trend, reducing cover to 2.35 times.

Dividends

	2002	2003	2004	2005	2006	2007*
Interim dividend (p)	1.00	1.30	1.75	2.10	2.70	4.00
Final dividend (p)	2.00	2.70	3.60	4.90	6.30	8.00
Total dividend (p)	3.00	4.00	5.35	7.00	9.00	12.00
Dividend cover	3.5x	3.3x	2.9x	2.7x	2.6x	2.35x

*before special dividend

Special dividends

	2007
Special dividend (p)	25
Total returned to shareholders (£m)	155
Shares cancelled (m)	20
% of shares cancelled	3.2

Share buybacks

	2002	2003	2004	2005	2006	2007
% of share capital authorised to repurchase	–	10	10	10	10	10
No of shares repurchased (m)	–	5.2	8.9	13.3	52.9	6.6
Total cost (£m)	–	12.2	27.7	49.9	246	44
Average price (p)	–	235	311	375	465	665
Issued share capital at year end (m)	–	667	671	671	617	609
% of share capital repurchased	–	0.8	1.3	1.9	7.9	1.1

Special dividends: Taking account of the Company's strong cash flows, potential acquisition pipeline and other potential investment opportunities, in July 2007 the Board declared a special dividend of 25p per share – effectively returning some £155m of surplus capital to shareholders. This was paid in addition to the interim dividend on 19 October 2007, to shareholders on the register at the close of business on 14 September 2007.

We also undertook a share consolidation, issuing 30 new shares for every 31 old shares. The principal purpose of this was to ensure that (subject to normal market movements) the market price of each new ordinary share matched what the share price would have been if the special dividend had not been paid. This means that earnings per share and share prices can still be compared fairly with previous financial periods.

Group interest cover for the year ended 31 December 2007 was 8 times.

III. Opportunistic share buybacks

We have continued to undertake share buybacks opportunistically, when market conditions allow, to maintain an efficient capital structure and minimise our long term cost of capital.

In 2007 we repurchased 6.6m shares (representing 1.1% of the issued share capital) at an average price of 665p.

Transforming Cumbria's public services

In February 2001, Cumbria County Council and Capita began a seven-year strategic partnership based around three core objectives: providing value-for-money services to the community, creating new jobs, and providing significant capital investment for the region. It covers a full range of HR, IT, finance, property and highways services.



Strategic partnership



£7m new regional business centre



£6.1m
savings and 350 new jobs

Since it began, the partnership has delivered savings of £6.1m through consistent and improved delivery of service. Staff productivity has increased, attrition has fallen to 3.9%, and absence is down to just 2.3%.

In June 2003 we demonstrated our commitment to the area by opening a state-of-the-art £7m regional business centre in Carlisle. We've also invested in a network of business centres across Cumbria and set up a new Council Tax Revenue and Housing Benefits processing centre in Carlisle, employing 60 people and geared for future expansion.

In all, we've created 350 jobs and grown business by 50% in six years. We continue to look for opportunities to create jobs, achieve further savings, and deliver better services.

Our business goal and strategy Managing our business responsibly

3B. Building scale and capacity

Growing our infrastructure to support our future growth

We have built up an extensive operational infrastructure and a depth of capabilities which enable us to fully support our clients, providing flexible operating models and sharing economies of scale.

Our continued growth and success depends on having the right resources in place both in terms of infrastructure and people. 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 partnerships.

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, through the Monthly Operational Business (MOB) review process, we monitor and review comprehensive operational management information enabling us to manage the business in a way that delivers our key financial aims.

Leveraging scale and resources

The substantial scale and broad capability we have created enable us to put forward increasingly compelling propositions to clients and win major integrated service transformations across the public and private sectors.

The recent addition of progressively larger contracts, with common processes and substantial numbers of transferring staff has accelerated the growth of our operations and resources. This in turn enables us to deliver more services and contracts through shared ICT platforms and operating structures, providing greater benefits to clients. They benefit not only from substantial cost efficiencies but also from greater access to specialist skills and flexible service delivery models.

Business centres form a central part of our service delivery infrastructure. Our business centres are service centres of excellence, where we are able to run a broad range of shared services to provide cost efficiencies to customers and a higher level of service quality.

At the end of 2007 we had an infrastructure of 54 business centres onshore in the UK, nearshore in Ireland and the Channel Islands, and offshore in India. We have now added a further centre in Pune, India. These centres are specialist centres, delivering services to multiple clients or providing multiple services to a single client.

This gives our clients exceptional flexibility. It allows us to deliver services in the most appropriate and cost effective way by accessing centres of expertise, economies of scale and a choice of operating cost models. As excellent reference sites, they are also essential to the sales process, allowing potential clients to see operations first hand and to speak with operational staff who have transferred to Capita from client organisations.

Business centre network

Onshore
UK

48 business centres

- Back office admin
- Customer services
- Life & pensions
- IT & software
- Resourcing & training
- Share registration
- Property consultancy
- Electronic document processing
- Claims & policy admin
- HR admin

Nearshore

Ireland, Channel Islands, Gibraltar

4 business centres

- Customer services
- Life & pensions admin
- Financial services
- Corporate registrars

Offshore

India

3 business centres

- Data validation & entry
- Claims & policy admin
- Fund management admin
- Accounting & finance processing

Blended service delivery

Our infrastructure allows us to offer clients a 'blended delivery solution', where appropriate. The establishment of our offshore operation in India in 2003 has enabled us to offer UK-based clients an alternative operating model to UK-based service delivery. Clients can now seamlessly access both our UK and India centres to deliver an outsourced service. Our offshore operations, based at three locations in Mumbai and Pune, are being used to make significant savings, provide flexibility, raise service quality and deliver increased productivity. Clients can access key skills and expertise in India which may be in short supply in the UK, at a significantly reduced cost and increased service quality. By combining onshore and offshore resources we can deliver maximum service flexibility, quality and cost effectiveness. We can do this because our comprehensive security and quality assurance systems ensure consistent service quality across the entire infrastructure.

3C. Managing resources well

Our greatest resource is our people, who are key to our success. 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.

Our employees are crucial to the success of the business and we therefore need to help them reach their full potential. We ensure our managers have the right training and knowledge to embed Group policies at local level, and we empower them to make decisions and respond quickly to clients' needs and business issues. We encourage an open culture where ideas are aired regardless of position and shared across similar operations where they may add value.

20 years ago we employed just over 100 people. Today we have over 29,000. Numbers have almost doubled in the last five years with a fast growing workforce in India.

Attracting the right people

Being able to attract the right people is essential. 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 mean we can also offer a stable and inspiring workplace. In addition to direct recruitment, transfers under new outsourcing contracts bring us a constant flow of talented and experienced people.

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.



Investing in our people

e-learning

Our comprehensive training and development programmes align continuous personal development with performance improvement. Through our training programmes, buddy system, on-the-job coaching, and regular performance reviews, employees have the skills to do their jobs and a clear path for career progression. We are expanding our e-learning programmes following the success of our e-induction which has received a 98% satisfaction rating from employees.

Our business goal and strategy Managing our business responsibly

Our success is closely linked to our diverse, inclusive culture.

In 2006 we created a combined equality and diversity policy, the key aim of which is to achieve employee profiles that reflect the local communities in which we operate. To ensure its effective delivery, in 2007 we launched the first stage of our Diversity Action Plan, appointing diversity champions throughout the business and incorporating online diversity training. Already 22% of employees have undertaken this training.

Our policies are designed to support and comply with all relevant UK, European and International human rights and employment legislation, and meet International Labour Organisation standards. These policies are embedded in our training and operational procedures.

Retaining and developing people

To maintain our growth we need to demonstrate our ability to deliver consistent, reliable service. To do this we must retain key people and provide appropriate training.

We ensure our employees have the right skills to deliver quality service through three main types of training:

- Specific job-related skills
- Personal development
- Professional qualifications.

We provide training through the most appropriate channel, with the majority delivered by our own training business. In an effort to make training more accessible, we've recently made all training courses available online. Take-up and satisfaction with online training has been high – our e-induction course received a 98% satisfaction rate.

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. We offer flexible working arrangements which benefit both the organisation and employees, including part-time hours, home working, job sharing, term-time working and flexi-time. We also offer time off for professional development and volunteering. We believe this approach benefits not just individuals but the Group as a whole.

We have a comprehensive suite of flexible benefits and put great emphasis on encouraging employee ownership through our share savings and ownership schemes. In 2007, 20% of the Group's eligible employees had share options or owned Capita shares.

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 continually reviewed by the Group Board.

Recognised achievement

Capita excellence awards

Through these annual awards we recognise and share examples of outstanding personal contributions to our business. The awards celebrate the core values that embody our organisation and reward outstanding examples of our culture in action. Categories include Effective Teamwork, Service Excellence, Innovation and Community Involvement. All nominees are invited to an annual awards dinner to celebrate their success.



Managing and inspiring people

We have a structured approach to people development that 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. Our leadership development programme, IMPACT, is supported by our employee intranet, CAPITAconnect, and our ideas-sharing culture is reinforced by transfers and secondments across the Group.

Our ability to manage employee integration is one of our greatest assets. Over two-thirds of our employees have transferred to Capita through outsourcing contracts or acquisitions, and their smooth integration is essential. 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.

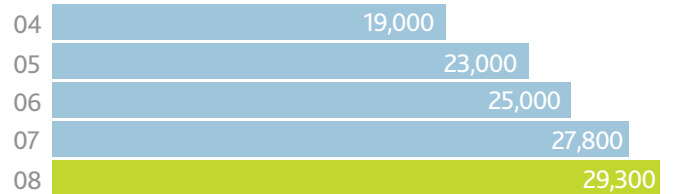
1,300 employees are currently based in India. A further 1,250 will transfer in 2008 as part of the Prudential contract, doubling our offshore operations. We apply the same principles to all newly-transferred employees regardless of their location, and our Staffcare programme ensures they have the information they need to understand what transferring will mean for them. In India, for example, potential employees want to be reassured that we can offer sustainable career development opportunities, alongside more practical concerns such as support for travelling to work.

To recognise success, we run original and entertaining incentive schemes aligned with performance targets. We also run 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.

We attach great importance to healthy two-way communication with an 'open door' policy across the Group, supplemented by more formal communication channels. Our people also have the opportunity to communicate their views in an annual employee survey.

Employee numbers

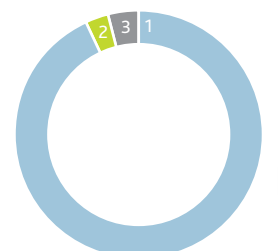
29,300



All figures as at end February

Employees by location

1. Onshore	92.5%
2. Nearshore	3.0%
3. Offshore	4.5%



Our business goal and strategy Managing our business responsibly

3D. Creating successful supplier relationships

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

Supplier management

Our supplier relationships are managed at two levels, our Group Procurement team who manage our Group-wide contracts and at a local or business unit level where there is a particular category expertise.

We have established partnerships with our key suppliers to ensure that we are able to negotiate beneficial Group-wide terms and assist them in reflecting high levels of service standards and responsible business practices across their business and supply chain.

We maintain a comprehensive database of all suppliers, segregated by supplier type and product/service category ensuring that client requirements for supplier information can be readily provided. The database is used as a tool to deliver against these requirements.

We're committed to developing small to medium sized enterprises (SMEs), ensuring that these suppliers are placed on a level playing field with larger suppliers used within the business. Our profiling capability is comprehensive and allows us to profile a myriad of different types of supplier from large to small and in any industry sector.

Our key supplier programme and supplier diversity plan ensure suppliers meet our own corporate responsibility, equality and diversity and performance standards. Within the programme we define our 'ideal' supplier, specifying not just technical competences but also culture and values, environmental credentials, health and safety record and commitment to corporate and social responsibility.

We have a wealth of experience in working with sub-contractors and niche partners, using their specialist skills for the delivery of the most appropriate and cost effective services. We have a sub-contracting policy and apply stringent criteria in selecting sub-contractors, managing all our suppliers and sub-contractors under the same principles, and ensuring that they work within a fully integrated delivery and reporting framework. A comprehensive procurement policy will be launched this year.

Wherever we can, we work in partnership with our clients and subcontractors to positively influence the environmental performance of projects on which we are engaged.

Transforming BBC Information Lines

In 1998 the BBC outsourced its customer service function to Capita. Its aim: to increase capacity and meet customer demand for greater accessibility. The service now covers all BBC output – TV, radio, the website, interactive TV and events.



Transformation plan for 100 existing staff



New contact centre and 100 more staff



£1m
savings a year

We transferred 100 existing call centre staff and opened a new contact centre in Belfast to handle long term growth. The service now runs 24 hours a day, 365 days a year, employing 200 staff who can take up to 40,000 calls an hour. Interactive voice recognition software, upgraded scanning facilities and an email auto-reply facility have freed up staff time, allowing a greater focus on value-added services. Increased efficiencies have enabled us to increase capacity by 40%.

Rigorous quality control ensures high standards of customer service. Staff training and development, plus our comprehensive performance management system, continually improve individual and team quality. And callers appreciate the difference: in a recent MORI poll, 89% expressed overall satisfaction.

3E. Undertaking socially responsible business practices

Controlling our environmental impact

Due to the nature of our business, Capita has a low environmental impact compared to organisations of similar size in other industry sectors. This is confirmed by our FTSE4Good environmental impact rating of 'low'. However, we understand that good environmental management is integral to our business and make every effort to minimize the impact of our operations.

Energy

Our most significant environmental impact is energy. In 2006, we launched a Group-wide programme to reduce the amount of electricity used at 18 of our largest sites by 12% by the end of 2008. We are progressing well against our targets, having reduced the amount of electricity used by 8% (an emissions reduction of just under 1,000 tonnes CO₂), and will be rolling the programme out to the entire Group in 2008.

We have also been working with the Carbon Trust to educate our facilities managers and are about to launch Capita's "green pages" – an area on our intranet giving staff information about what they can do to reduce their own and the Company's carbon footprint.

Transport

Transport is the other area in which we have the biggest environmental impact. Our company car policy states that all new and replacement company cars will be diesel, and 95% of our fleet cars have switched to diesel. The policy is undergoing a review to reflect changes in Health and Safety liabilities, keep it attractive to staff and increase incentives to reduce carbon emissions by improving the flexibility for drivers to trade down to cars with lower emissions.

We try to reduce car travel generally and continue to promote the use of our BT conference call facility throughout the business, with over 34,000 conference calls made over the last year, a third more than the previous year. We also support local initiatives such as lift sharing and shuttle buses to and from our offices and are evaluating the Government's 'cycle to work' scheme.

Waste

In order to be a sustainable business we need to look at the resources we use, how we recycle them, and how we dispose of them.

This year we have worked with our suppliers to source environmentally friendly products, and through our work with Office Depot have increased the proportion of environmentally responsible goods available to Capita sites. As a direct result, 17% of our total contract spend with Office Depot in 2007 was on environmentally responsible products.

We also continued to develop effective waste management policies and run various recycling schemes to ensure used IT equipment, toner cartridges, mobile phones and paper are either recycled or responsibly disposed of, as set out in the EU WEEE Directive.

In 2006, we set up the Digital Pipeline Initiative, donating our redundant IT equipment to schools and community centres in developing countries. In 2007 we donated over 8,000 units.



Minimising our impact

Reduction in CO₂ emissions

In 2006, we set a target of reducing electricity use by 12% at 18 of our largest sites by 2008. We are progressing well towards this target, with overall savings of 8% to date, an emissions reduction of just under 1,000 tonnes of CO₂. On the back of this success we will be rolling the programme out to the rest of the Group – starting with sites that have Group electricity and gas supply contracts.

Our business goal and strategy Managing our business responsibly

Supporting our communities

The nature of our business means that we are based in the heart of the communities we serve. Our interest in corporate responsibility (CR) arises from a recognition of the impact our business operations have on those communities.

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

There is direction and assistance from the Group but businesses are empowered to undertake local initiatives that are most appropriate to the needs of their local communities.

Our strategy focuses on two areas – local community partnerships and charitable initiatives.

Local community partnerships

Our regional partnerships have helped to increase job creation, local purchasing and investment in community initiatives. Our regional business centre strategy for creating new 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.

2007 marked the end of our successful corporate charity partnership with the NSPCC and The Prince's Trust. Our partnership directly raised £1.55m and a further £1.7m through sponsorship of the charities' events.

From 2008, following feedback from employees, we decided to support one charity, chosen by staff, at Group level alongside specific local projects. Staff voted to work with Macmillan Cancer Support. As employees were fully involved in the selection process we hope to see greater engagement over the next year.

As our business expands, our community programme will grow to reflect these developments. With continuous employee consultation, we will refresh and widen our programme – supporting our staff-selected charity or local charities where our corporate charity is not represented – as well as specific local community projects.

To reflect the growth of our operations in India we have set up a community initiative in Mumbai, initially providing support for an orphanage and its school. We work closely with our operations in each community to identify the best way of contributing to the community.

Full details of our CR priorities, initiatives and progress are detailed in our annual CR report available at www.capita.co.uk/corporate-responsibility



Charitable engagement

The Capita Challenge

An outdoor adventure race of mental and physical challenges in which both employees and clients compete together to raise money for our charity partners.

By joining in the challenge our customers, friends and stakeholders can strengthen their links with Capita and gain first hand experience of the spirit which sets us apart.

In 2007 we raised £28,000 for the NSPCC and The Prince's Trust through the Capita Challenge.

CR Priorities	Aim	Year end 2007	Year end 2006
Environment	Continue to measure and assess our carbon footprint to reduce our impact on the environment – new benchmark established, to be measured annually	58,523 tonnes	not available ¹
	Raise awareness of environmental issues and Group initiatives across the business	Ongoing	Work group set up to monitor requirements and progress
	Environmental site audit to be undertaken twice each year	Audits completed	Audits completed
	Reduce Capita's overall impact on the environment – achieve 12% reduction in electricity used at our 18 largest sites by 2008	Ongoing	Target set
	Continue switching fleet vehicles to diesel engines	95%	95%
	Achieve further ISO 14001 accreditations at our higher impact sites	37	34
	Further promote BT conference call facility	34,463 conference calls	21,094 conference calls
	Further promote Digital Pipeline Initiative where used IT equipment is donated to developing countries	8,000 pieces of IT equipment donated	5,000 pieces of IT equipment donated
Communities	Job creation to date	4,700	4,000
	Corporate donations	£0.5m	£0.5m
	Meet our target of raising £1.5m for our corporate charities NSPCC and The Prince's Trust by end 2007. A target of £1m over two years to end 2009 has been set for our new charity partner, Macmillan Cancer Support	Raised £1.55m	Raised £1.20m
	Maximise the fundraising potential of our Group-wide charity week	Raised £48k	Raised £53k
Health & safety	Ensure we provide safe and productive working environments for all our employees	58 reportable accidents (RIDDOR)	58 reportable accidents (RIDDOR)
	Undertake site audits twice each year	Audits completed	Audits completed
Senior management retention (earning over £90k p.a.)	To attract and retain the appropriate level of senior management to drive the strategic direction of the Group	89%	91%
Overall employee retention	To attract and retain the right people to deliver Group strategy, maintaining employee retention at or above industry average (2007: 81.9%, 2006 81.7%) ²	82%	82%
Employees by location	To have at least 10% of our people based in India by 2009	4.5%	3%
Diversity of people	To reflect the communities in which we work:		
	→ Male/female split	51% male 49% female	51% male 49% female
	→ Male/female split for management (earning over £50k p.a.)	62% male 38% female	65% male 35% female
	→ Ethnic diversity ³ (employees from ethnic minority groups)	8% (based on 50% response rate)³	15% (based on 48% response rate)
Part-time working	To provide flexible working hours while ensuring maximum flexibility in Group resources	17%³	24%
Creating successful supplier relationships	Audit all existing tier one suppliers against Capita's standards of business – 50% of all suppliers by end 2007. A new target of 60% of all suppliers to be audited by end 2008 has been set	41% suppliers audited	Supplier audit commenced

¹ Our carbon footprint was last measured in 2004 across a different set of sites.

² CIPD 2007.

³ Impacted by end of Office Services contract and subsequent transfer of staff out of the Group.

4. Targeting growth markets

Leading across a number of growing markets

We are the UK's market leader in providing BPO services. Our unrivalled infrastructure and capability, built up over more than 20 years, enable us to maintain a leading position in the market. Our outsourcing partnerships today are focused on increasing service quality and reducing costs across both back office and frontline customer service processes. Our aim is to transform our clients' operating models to generate value and help to keep them at the forefront of their markets.

Transforming Zurich Financial Services

Our £300m partnership with Zurich to provide open book life and pensions administration services is the largest in the UK. We were appointed to improve service quality and cut operating costs over multiple sites, delivering customer servicing, policy administration, and new business and claims activities for Zurich's 2.8m UK open book life and pensions customers.



1,200 staff transferred



Focus on staff communication

The scale of our infrastructure and breadth of our expertise provide us with a strong competitive edge across our markets and enable us to present strong propositions to clients. Most 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.

We focus on supporting clients from the UK and Ireland where there are significant opportunities for growth. An independent survey has estimated the market's potential at £94.8bn, split 2:1 between private and public sectors respectively. In 2007, the total market for BPO was estimated at £5.1bn and forecast to grow at 10% a year until 2011*.

Competitor rankings UK BPO market*

Provider	% Market share	
	2007	2006
Capita	22	21
Vertex	7	8
Accenture	6	7
EDS	6	7

*Ovum 2007



Swift service improvement

1 month to hit contract targets

In March 2006, just a month after we took over, Zurich's Cheltenham and Swindon customer contact centres were both meeting or exceeding the contract key performance targets. Call abandonment was down from 11.6% to 2.3%, while competency and performance was up to 99%. Two years on, call abandonment is just 1.8%.

The key to success: a carefully managed transition with emphasis on staff communication. Recognising the importance of the operation's 1,200 people, we worked with them to earn Investors in People accreditation – an achievement shared by everyone involved in November 2007. The Zurich Customer Contact Centre was also named Customer Service Contact Centre of the Year (up to 100 seats) at the 2007 National Customer Service Awards.

Our business goal and strategy Targeting growth markets

Drivers behind our markets

We currently operate in nine 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 2007, our private/public sector split was 48%/52% (2006: 48%/52%). 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 where we can generate value for our clients and sensible returns for Capita, irrespective of their market sector.

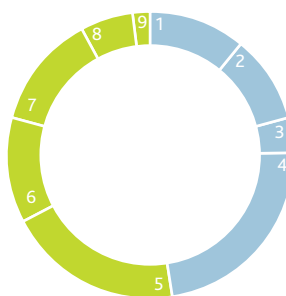
Appetite for outsourcing remains strong and we are experiencing an increase in interest from clients in a number of our target market sectors. In 2007, we were most active in securing large outsourcing contracts in life and pensions and local government. Central government was the quietest market. So far in 2008, we are experiencing buoyant activity across many

of our markets but still expect central government to remain fairly quiet, apart from support required to set up service infrastructures for new initiatives.

Some of our prospective private sector clients are expecting their market conditions to deteriorate over the next 18 months. This is prompting them to explore how outsourcing could help create a more flexible and lower cost operating model. Given our scale and expertise in achieving this, we may see growing demand from private sector organisations. However, we will continue to pursue such opportunities selectively and ensure controlled growth across the Group.

Markets

	% of turnover	
	2007	2006
1. Life and pensions	11	8
2. Insurance	10	10
3. Financial services	4	4
4. Other corporate	23	26
5. Local government	20	17
6. Central government	12	14
7. Education	13	14
8. Transport	6	6
9. Health	1	1



48%
Private
(2006: 48%)

52%
Public
(2006: 52%)

Private sector

Capita is well established in the private sector. Our three largest private sector markets are life and pensions, insurance and financial services. We are also supporting a growing number of other corporate organisations, particularly media, retail and telecommunications companies.

1. Life and pensions

Capita is delivering new service models to increase client competitiveness.

Our deep experience across both open and closed book business gives us a strong proposition. Life and pensions companies continue to face a highly competitive and regulated environment and many are adopting new service models to increase competitiveness. This is stimulating demand for outsourcing, which industry analysts expect to grow by 14% annually across the sector to 2011*.

We work with clients to keep them at the forefront of their market by raising efficiency, maintaining and enhancing service quality and providing flexible operating models. Our specialist skills and software are also attractive to occupational pension providers, as pension scheme structures become ever more complex.

Clients engage Capita to help them to:

- Reduce operating costs while improving performance and customer retention
- Ensure administration processes address increasingly complex regulations and initiatives such as MiFID
- Bring new propositions such as wrap products to market quickly, to satisfy consumer and adviser demand for more choice
- Meet adviser demand for new remuneration methods to reduce reliance on upfront commission
- Respond to rapid change in the distribution marketplace
- Develop closer relationships with advisers through technology and 'straight-through processing'
- Access specialist skills (and enhance processes and systems) to meet new pensions legislation and support the shift from final salary to money purchase pension schemes.

Services

- Business process outsourcing
- Customer services
- Administration and support
- Information and communications technology
- Finance and treasury
- Consultancy and change management

Divisions

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

2. Insurance

Capita can help the insurance industry to address its challenging operating environment.

Conditions for the insurance industry continue to be tough. Companies face increasing regulatory pressures 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 strive to compete more effectively, they look 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 2011*.

Clients engage Capita to help them to:

- Establish effective processes to satisfy complex regulation
- Reduce operating costs and improve customer service
- Establish strategic partnerships for low risk service improvement and business transformation
- Improve management of claims costs, in particular through fraud and leakage prevention
- Meet customer demand for more transparency, information, flexibility and value
- Benefit from the continued rise of affinity brands among internet service providers, utilities and retailers.

Services

- Business process outsourcing
- Customer services
- Administration and support
- Information and communications technology
- Finance and treasury
- Consultancy and change management

Divisions

- Insurance & Specialist Services
- ICT & Advisory Services

*Ovum 2007

Our business goal and strategy Targeting growth markets

Private sector continued

3. Financial services

Capita is an ideal service partner for clients facing a market with fierce competition and growing regulation.

Growth has been driven across the board in the last few years 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 continuing to drive 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. Our uniquely broad range of services enables us to offer them a single view of their customers across their whole product range.

Industry analysts estimate growth of 8% annually to 2011*. We expect continuing demand for our services even if economic conditions deteriorate, as organisations will need to reassess their operating models to remain competitive. Our Registrar business (representing c. £60m of the Group turnover) may be affected by a possible turndown in M&A work but this is expected to be offset by demand in other areas of financial services.

Clients engage Capita to help them to:

- Manage compliance risk generated by continuing regulatory change
- Exploit opportunities created by regulatory and legislative change to launch a wide range of new products – all requiring administration
- Do more for customers and create new premium services
- Meet financial intermediaries' need for compliant, risk-related sales processes, through intermediary partnerships and bespoke administration systems
- Benefit from new outsourcing opportunities created by structural changes in markets
- Take advantage of the new opportunities for overseas companies created by the pre-eminence of the London Markets.

Services

Business process outsourcing
Customer services
Administration and support
Human resources
Information and communications technology
Finance and treasury
Consultancy and change management

Divisions

Financial Services
Life & pensions
Insurance & Specialist Services
ICT & Advisory Services

4. Other corporate

Capita helps increase companies' competitiveness by enhancing customer service and improving productivity.

The proven competitive benefits of outsourcing have made it increasingly acceptable. Right across the private sector, companies' competitiveness depends on unrelenting improvement in productivity, quality and customer service. Increasingly, they recognise outsourcing of both back office and frontline services as an indispensable part of achieving this. We can add real value to their performance and allow them to focus resources on their central areas of expertise. Industry analysts expect this market to grow by 11% annually to 2011*.

Clients engage Capita to help them to:

- Reduce processing and administration costs while improving customer service and retention
- Bring new products to market faster to meet changing customer demands
- Gain better access to expert operational and advisory capabilities
- Compete more effectively for skills through focus on employee support and benefits
- Improve productivity through better management of sickness and absenteeism
- Meet increasing regulatory and legislative requirements.

Services

Business process outsourcing
Customer services
Administration and support
Human resources
Information and communications technology
Property consultancy
Finance and treasury
Consultancy and change management

Divisions

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

*Ovum 2007

Public sector

Capita was formed in the public sector and initially supported local authorities. Today, Capita provides outsourcing and support services to central and local government. We have built up particular expertise in education and transport and have a growing interest in health.

5. Local government

Capita helps local authorities to develop new delivery models and transform services.

Transforming public services for the benefit of citizens and communities continues to be 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 8% a year to 2011*. This continues to be a highly attractive and buoyant market for Capita.

Clients engage Capita to help them to:

- Meet the challenging goals of the 2007 Comprehensive Spending Review, including 3% annual efficiency targets and shared services
- Respond to the Local Government Act through place-shaping and more partnership working, more strategic commissioning and devolution to communities
- Deliver Sustainable Community Strategies through greater local cross-agency working and the new Comprehensive Community Performance Assessment (CCPA)
- Respond to the CCPA's emphasis on efficient use of resources
- Deliver the Transformational Government agenda for more personalisation and improved citizen access
- Address key service priorities: children's services including education, social /community and economic regeneration and transport.

Services

- Business process outsourcing
- Customer services
- Administration and support
- Human resources
- Information and communications technology
- Property consultancy
- Finance and treasury
- Consultancy and change management

Divisions

- Professional Services
- HR Solutions & Property Consultancy
- Financial Services
- ICT & Advisory Services

6. Central government

Capita works with Government departments to deliver service transformation.

Across the public sector there is constant pressure to increase efficiency while simultaneously enhancing service quality. As Government departments face ever more demanding financial and service targets, some are engaging with the private sector to help them deliver organisational change and service transformation. Our record of successfully delivering complex and high profile transformational projects, supported by effective ICT and process re-engineering, makes us an attractive partner in modernising existing services and supporting future Government initiatives.

Market growth of 9% is expected out to 2011*. However, we expect in the short term that this growth will be mainly fuelled by requirements for outsourcing to deliver new service initiatives rather than transformation of the Government's existing administration infrastructure.

Clients engage Capita to help them to:

- Meet the challenging goals of the 2007 Comprehensive Spending Review, including 3% annual efficiency targets and shared services
- Develop and modernise infrastructure – e.g. transport, Building Schools for the Future
- Deliver the Transformational Government agenda for more personalisation, improved citizen access and cross-government working
- Enhance partnerships across the public sector
- Address key service priorities: children's services including education, social/community and economic regeneration and transport
- Ensure that government and public services enhance the UK's global competitiveness.

Services

- Business process outsourcing
- Customer services
- Administration and support
- Human resources
- Information and communications technology
- Property consultancy
- Finance and treasury
- Consultancy and change management

Divisions

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

*Ovum 2007

Our business goal and strategy Targeting growth markets

Public sector continued

7. Education

Capita is supporting the Government’s strategy to improve educational standards and raise accessibility.

The Government has committed further funding to improve educational standards and raise accessibility, but there is a need to ensure value for money as the growth in funding slows down. Government education strategy focuses on educational outcomes and requires changing roles for local authorities and new responsibilities for schools and colleges. We are particularly well placed to contribute because we combine ground-level professional support services experience in schools and strategic management capacity to support local authorities and the Department for Children, Schools and Families (“DCSF”).

Industry analysts are predicting market growth rates of 5% out to 2011*. We anticipate continuing to build on our activities within this market.

Clients engage Capita to help them to:

- Transform and deliver support services through shared platforms to meet efficiency targets and achieve value for money to underpin education excellence
- Develop and deliver the wider Children’s Services Agenda
- Make planned investment in systems and ICT to reduce bureaucracy, enhance assessment and improve financial management
- Set up arrangements for and support implementation of Building Schools for the Future
- Address the Leitch Review of Skills and the reconfiguration of further education and training
- Recruit key personnel, including teachers.

Services

- Business process outsourcing
- Customer services
- Administration and support
- Human resources
- Information and communications technology
- Property consultancy
- Finance and treasury
- Consultancy and change management

Divisions

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

8. Transport

Capita has one of the UK’s largest and most diverse multidisciplinary property and infrastructure consultancies.

Our offering spans a broad range of infrastructure and transport consultancy, from strategic and policy issues to effective design and delivery of complete transport management solutions. A key priority for the Government remains road congestion, and it has committed funds to help local authorities explore innovative ways of reducing local traffic. Private sector involvement is well established in this area and our experience of delivering the London Congestion Charging schemes positions us well to assist local authorities.

Although we will no longer be delivering the London Congestion Charging schemes from the end of November 2009, we are experiencing steady interest from current and potential local authority clients who want to incorporate transport management solutions into their integrated transport plans.

Industry analysts predict market growth of 10% out to 2011*.

Clients engage Capita to help them to:

- Implement the Public Service Agreement to cut urban congestion by 2010-11
- Meet the Government’s commitment to road pricing schemes
- Address local transport needs through public consultation
- Respond to the Government’s commitment to building road and transport infrastructure
- Use technology to improve network management.

Services

- Business process outsourcing
- Customer services
- Administration and support
- Human resources
- Information and communications technology
- Property consultancy

Divisions

- Integrated Services
- Professional Services
- HR Solutions & Property Consultancy
- Financial Services
- ICT & Advisory Services

*Ovum 2007

9. Health

Capita is helping to deliver the increase in outsourced services and public private partnerships that is seen as key to progress in the health sector.

Although NHS funding is set to increase, there are significant financial pressures for organisational change to deliver efficiencies, improve commissioning and enhance patient experience through better access to services. Responding to these pressures requires transformation of both back office (support services) and front office (clinical administration) to free-up and support frontline services. Outsourced services and public private partnerships are increasingly seen as key to building capacity and delivering the capability and experience necessary to facilitate this change.

Industry analysts predict annual market growth of 31% to 2011*.

Clients engage Capita to help them to:

- Respond to funding pressures and the 2007 Spending Review
- Enhance their commissioning capacity
- Improve patient access through a transformed front office
- Rationalise and modernise support services
- Realise the benefits of new technology, in particular through the Connecting for Health programme
- Rationalise existing property and reinvestment in new property to improve work environment and patient care
- Streamline clinical administration to deliver Patient Choice and achieve the 18 week target from first appointment to treatment.

Services

- Business process outsourcing
- Administration and support
- Human resources
- Information and communications technology
- Property consultancy
- Finance and treasury
- Consultancy and change management

Divisions

- HR Solutions & Property Consultancy
- ICT & Advisory Services

*Ovum 2007

5. Maintaining performance across our divisions

Each of our seven operating divisions consists of a number of businesses and major contracts. Every business is aligned with the Group's overall objectives and strategy.

Every business works to an annual business plan which sets out financial targets and the research, development and resources required to meet or exceed the plan. Performance is reviewed monthly and adjustments to spend, activity and resources are made where necessary.

Transforming Salford's regeneration

Urban Vision, our unique joint venture with Salford City Council and construction group Morrison, supports the city's continuing regeneration. Responsible for planning and business control, engineering and highways, property and business development support, facilities management and building design, it has played a key part in a fourfold increase in investment in the city's roads to around £7m a year.



400 council employees seconded



Capita's property consultancy

The divisional structure supports a robust, 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 through:

- A. Aligning each business with the Group’s overall objectives and strategy
- B. Investing in service and product development and appropriate sales and marketing activities
- C. Maintaining a simple, pragmatic divisional structure to share resources and economies of scale.



New procurement framework



80
new jobs

By creating a more flexible workforce and enabling staff to work more closely together, Urban Vision has made considerable efficiency savings which can be reinvested in further service improvement.

Through partnership with our property consultancy, Capita Symonds, Urban Vision has helped the Council cut property costs while improving the office environment, boosting staff morale and supporting recruitment and training. It has also won new work designing flagship schools under the Building Schools for the Future (BSF) initiative. When the Council’s landscape design team was seconded to Urban Vision, it was short of work and jobs were at risk. Two years on, it has a full workload and a good forward pipeline.

Our business goal and strategy Maintaining performance across our divisions

We maintain a simple, pragmatic divisional structure that delivers our Group strategy

A. Alignment with Group strategy

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.

Each business produces its own annual business plan outlining specific strategies and considerations and setting performance targets for the following year. The MOB process described on page 16 ensures regular monitoring and reporting of performance against targets and is an effective forum for planning ahead, solving issues and sharing expertise and support.

B. Individual business tactics

With a focus on continuous growth, each business undertakes appropriate tactics to achieve or maintain market leading positions. Research and development initiatives underpin the constant development of products and services to meet the current and future needs of clients. Businesses adopt the most appropriate marketing and sales activities to address the characteristics of their individual marketplaces.

C. A flexible divisional operating structure

We have created a pragmatic, flexible structure which is regularly refreshed as the Group develops. We move businesses, contracts and managers across the divisions to ensure the best match of leadership and resources as the Group grows. The businesses benefit from the powerful combination of individual focus and the ability to reach out across the Group to share operational skills and resources, benefit from economies of scale, create and deploy innovation, and harness the best of ICT and business processes.

We are currently organised into seven 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.

Group-wide support services, such as finance, legal and commercial, property management, procurement, health and safety and environment and HR, report directly to Group Board Executive Directors to ensure robust control, consistent standards and shared benefits across the Group.

1. Integrated Services

TV Licensing
Criminal Records Bureau
TfL Congestion Charging
Central government services
Administration services
Business travel
Offshore

2. Professional Services

Software services
– Private sector
– Education
– Local government
Local government services
Strategic children's services
Local government partnerships
– Blackburn with Darwen BC
– Swindon BC
– Southampton CC

3. HR Solutions & Property Consultancy

Integrated HR solutions
Resourcing
Veredus
Capita Symonds

4. Financial Services

Shareholder services
Financial administration services
Trust services
Sector

5. Life & Pensions

Life & pensions
Capita Hartshead
SIP services

6. Insurance & Specialist Services

Insurance services
– Outsourced solutions
– Specialist services
– Teceris
Legal services
Occupational health
Customer contact centres
– eircom
– DSGi

7. ICT & Advisory Services

Service Birmingham
Harrow Council
IT services
Mission assurance & testing
Advisory services
Communications

Progress across our divisions in 2007

1. Integrated Services

contains all of our major central government contracts and our offshore operations.

	2007 £m	2006 £m
Turnover	302.4	300.9
Operating profit	46.6	46.6
Operating margin	15.4%	15.5%
Capex	9.9	16.6

2007 developments

- **TV Licensing:** Great strides have been taken to reduce the cost of operation. More usable interfaces have been designed to improve the human interaction with legacy IT systems. Intuitive and windows-based interfaces will cut down the time spent training newcomers on the system by over 70% (from seven weeks to two), and will improve transaction handling times by over 20%. In the back office, intelligent workflow systems have further enhanced the ability to transition non client facing work to Capita's offshore facility in Mumbai. This innovative system has increased the automation of simple transactions. These initiatives have increased productivity and delivered cost efficiencies.
- **TfL Congestion Charging:** The Western Extension Zone (WEZ) was effectively and smoothly implemented on 19 February 2007 and we have continued to deliver good service across the extended zone. The contract to deliver the congestion charging scheme across London was not re-awarded to Capita and the contract will finish at the end of November 2009. The Low Emission Zone (LEZ) was successfully implemented on 4 February 2008.
- **CRB:** With over 15m disclosures issued and 92% customer satisfaction, the CRB Capita partnership is in its fifth year. We continue to enhance the service by progressing phase two of the online tracking service and bringing additional data sources into the PLX checking process, which now totals over 60m records. The contract was awarded silver at the Kablenet government innovation awards and gained the prestigious ISO14001 environmental management accreditation.
- **Capita Business Travel:** Following the rebrand in January 2007, from Lonsdale Travel to Capita Business Travel, the business has secured new sales contracts worth £34m and retained 100% of its top 10 customers – who undertook formal tender processes as contracts expired in 2007. New and renewed contracts have come from public and private sector businesses such as Yell, Alfred McAlpine, Royal Mail Group and OGCbuying.solutions. A strong service reputation and new operational technology and procedures have played key roles in this success. The new online booking technology has been well received by customers.
- **Offshore Services:** Our offshore operation grew strongly in the year and played a key role in securing major contracts, including with Resolution and Prudential. It is now the Group's largest multi-client service centre, employing 1,300 staff and processing more than 1m transactions a month. It is fully representative of the Group, servicing both public and private sector contracts and supporting a number of Group businesses.

2008 priorities

- 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, extend relationships and explore service delivery models.

2. Professional Services

comprises our local government services and all our software businesses as well as Capita Strategic Children's Services.

	2007 £m	2006 £m
Turnover	264.3	191.7
Operating profit	48.1	37.4
Operating margin	18.2%	19.5%
Capex	8.1	6.7

2007 developments

- **Local Government Services:** Continued its strong performance in 2007, successfully completing Phase 2 of our 10 year partnership with Swindon BC and becoming preferred bidder for Hart DC, a 10 year deal worth approx £10m. We also began our 15 year partnership with Southampton CC in October. Our service offering has been expanded to meet the growing demand from clients, in particular for customer services and procurement activities.
- **Local Government Software Services:** Our local government service and software businesses continue to work closely together to help clients increase operational efficiencies to meet the challenges set out in the Comprehensive Spending Review. We continue to set the highest standards for our products and have become the first major supplier to local government to achieve the Payment Card Industry Data Security standard (PCI DSS) for our payment management products and services.
- **Children's Services:** We have successfully brought together and refocused our education service offering in response to the Every Child Matters – Change for Children programme and are recognised as leading providers of consultancy, interim management and software support to children's services authorities. We have increased our market share in existing markets and entered new markets such as software services for Children's Social Care, Early Years provision (through our acquisition of CPFR) and Learning Gateways in schools – providing pupils, staff and parents with secure remote access to information. Additionally, 94% of our further and higher education clients renewed their software licenses for a further three years.
- **Private sector software:** The benefit of integrating our three recent acquisitions – Quay (back office and client relationships), Webline (quotation and ebusiness) and Synaptic (life, pensions and investment research) – was demonstrated in 2007 with the release of the Enabler modular website for independent financial advisers (IFAs). By combining and integrating these companies' services, we can enable IFAs to enhance their client service and demonstrate compliance with regulatory requirements.

2008 priorities

- Maintain market share in the local government and education software markets through continued development of new and innovative products to keep pace with changing requirements
- Expand software services private sector offering and increase leverage from other divisions
- Continue to enhance market leading position in local government through joint initiatives with other Capita businesses and through partnerships
- Continue to explore opportunities and synergies across private sector software and document management and imaging services
- Continue to build on the success of our National Strategies contract and further strengthen our relationship with the DCSF.

Our business goal and strategy Maintaining performance across our divisions

Progress across our divisions in 2007

3. HR Solutions & Property Consultancy

comprises our resourcing and property services operations. To provide greater transparency they are reported separately.

	2007 £m	2006 £m
HR Solutions		
Turnover	245.9	205.9
Operating profit	23.4	17.7
Operating margin	9.5%	8.6%
Capex	3.9	4.4

2007 developments

→ **Integrated HR Solutions:** In 2007 we continued building on the foundations developed in 2006. The BBC HR and Northern Ireland Civil Service contracts are now established and operational. New HR outsourcing contracts with Swindon BC, Southampton CC and Leicester and Rutland NHS Consortium went live. Our focus remains on developing further our strong HR capability across HR strategy, resourcing and payroll administration, learning and development and outplacement, positioning us uniquely in this market.

Following the acquisition of NHS Partners from North Bristol NHS Trust, this business is focused on three areas: employee and patient surveys, remuneration strategies and HR information service. The acquisition complements our HR business strategy and gives us a further foothold in the extensive NHS market.

- **Resourcing businesses:** These continue to perform well. Capita Resourcing has experienced very good growth, successfully winning a new managed service contract with EDF Energy and seeing strong growth across its niche recruitment businesses.
- **Assessment and Testing:** This specialist business has developed further longer term contracts, supporting clients such as BAA.
- **Capita Education Resourcing:** Continued to make steady progress in 2007 with an increase in Teacher Supply days, particularly in its Further Education Division which increased volume by 69%.
- **Capita Recruitment Vetting Service:** Had another very successful year with growth of 96%. It is now the second largest CRB Umbrella Body in the UK.
- **Veredus:** Our senior search and selection brand had a very strong, profitable year across both public and private sectors.

2008 priorities

- Manage the smooth transfer and implementation of new integrated HR contracts
- Develop additional products and services to penetrate new and existing clients, and make further acquisitions to develop or consolidate our position
- Promote our offshore capability where appropriate to clients
- Support Group sales team to sell integrated HR propositions as separate contracts and as part of a wider BPO partnership
- Continue to seek synergies across resourcing businesses and focus on managed resourcing partnerships to secure longer term relationships.

	2007 £m	2006 £m
Property Consultancy		
Turnover	231.9	199.4
Operating profit	19.3	12.8
Operating margin	8.3%	6.4%
Capex	2.7	3.1

2007 developments

- **Growth:** We are now the UK's sixth largest multidisciplinary property and infrastructure consultancy.
- **New business:** we secured framework wins from Network Rail, TfL, OGC, Environment Agency, Exxon Mobil, London Development Agency (LDA) and the Olympic Development Agency (ODA) – and were appointed as architect for BAA's £300m Heathrow Terminal 5 Concourse C.
- **Durham City Council:** We secured a two-year extension to our Civil Engineering Services strategic alliance with the Council.
- **Wembley National Stadium:** We are project managers for Wembley National Stadium, which hosted its first FA Cup Final in May 2007.
- **Integration:** We consolidated our architectural services under the Capita Architecture brand and successfully integrated some 200 staff as part of Group strategic partnerships with Southampton CC and Swindon BC.
- **Organisation:** We restructured and strengthened the Executive Board under new leadership.
- **Recognition:** We were listed as 'One to Watch' in the 2007 Sunday Times Best Companies To Work For Survey .

2008 priorities

- Continue to work closely with Group sales team to provide added value integral propositions as part of wider transformation partnership opportunities
- Build on success in selling standalone property propositions to Group clients, particularly in local government
- Continue to foster close working across property and infrastructure disciplines to accelerate organic growth
- Focus on senior-level relationships with top 30 clients
- Increase presence on procurement frameworks to expand access to opportunities across wider markets.

4. Financial Services

contains our shareholder, financial and trust administration and treasury services businesses.

	2007 £m	2006 £m
Turnover	156.9	120.8
Operating profit	37.3	31.5
Operating margin	23.8%	26.1%
Capex	3.8	3.6

2007 developments

- **Another excellent year of growth:** Revenue growth was strong across all our operations – for instance Capita Registrars' turnover grew by 22% to £61m. We processed 6,300 corporate action events with a combined value of £51bn, issued over 7m cheques and administered 130 IPOs (gaining 54% market share).
- **Organic growth:** Strong organic growth was driven by new products – such as NHS Membership and governance services, Tracing Solutions and SAYE administration – and the renewal of long term contracts with two of our largest share registration clients.
- **Official Solicitor & Public Trustee:** We successfully implemented our outsourcing contract.
- **Combining Group skills:** our joined-up approach with Life & Pensions was a key differentiator in winning the Co-operative Insurance contract. Over 150 former Co-operative staff transferred to our Fund Administration operations.
- **New start-up businesses:** We opened operations in the Isle of Man (Registration), Guernsey (Fund Administration) and Dublin (Trustee Services).
- **Acquisitions:** During the year we acquired the Trust & Fiduciary operations of PwC Channel Islands and Global Fund Administration in Gibraltar.
- **Offshore:** As part of our continuing collaboration with offshore colleagues, we designed and implemented a new product specifically to be 100% delivered from our Indian operations.
- **Growing market demand:** Increasing complexity in design and delivery of products, such as the increasing use of derivatives in unit trusts, and increasing regulatory complexity – such as the Market Abuse Directive, 3rd EU Auto Money Laundering, MiFID, TCF initiatives and new Companies Act – continue to provide impetus for outsourcing in the industry.

2008 priorities

- Maintain high levels of regulatory compliance across the business and continue to develop solutions to help our customers comply with their regulatory obligations
- Develop and implement new and more advanced administration systems to reduce risk and increase efficiency via greater straight-through processing and automation
- Drive margin expansion by relocating jobs to lower-cost delivery areas in England and India and rationalising operational infrastructure
- Pursue further appropriate acquisitions, including selective investigation of some Western European jurisdictions.

5. Life & Pensions

comprises all our life & pensions businesses including open and closed book, occupational pensions and SIPP administration.

	2007 £m	2006 £m
Turnover	255.5	184.3
Operating profit	31.6	22.7
Operating margin	12.4%	12.3%
Capex	23.2	18.4

2007 developments

- **L&P outsourcing:** We are the leading outsourcing provider in this area with over 50% of contracts let. With the start of the Prudential contract in April 2008, we will be administering 22m life, savings and pensions policies. This market continues to be very active.
- **New business:** During the year we have successfully transitioned the Co-operative Insurance and Resolution businesses into Capita. Both these major contracts have performed well in the first few months.
- **IT development:** We continue to work closely with Mastek on developing the next generation of the Elixir software that is currently used across a number of clients. The new version will become available in 2009.
- **SIPPs:** In recognition of the increasing influence of key IFA groups and distribution as a whole in the UK life and pensions market, we have extended our open funds access platform supporting our SIPPs business into a more generic WRAP-based capability. This allows key distribution firms to have 'straight-through' access to a broad range of providers and funds.
- **Capita Hartshead:** Our business continues to perform strongly. Recent acquisitions have significantly increased our actuarial capacity, which will attract new clients and extend the range of services to existing clients.

2008 priorities

- Maintain high levels of compliance across the business and develop solutions which help clients meet increasingly complex 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 Prudential
- Continue to extend our trading platform across multiple distributor groups and UK blue chip providers
- Continue to develop our technology platforms to help clients bring new products to market faster
- Continue to build offshore capability into existing contracts and new proposals
- Continue to grow our presence in occupational benefit consultancy and actuarial services.

Our business goal and strategy Maintaining performance across our divisions

Progress across our divisions in 2007

6. Insurance & Specialist Services

comprises specialist services and outsourced solutions for the insurance market, occupational health services and outsourced customer service centres.

	2007 £m	2006 £m
Turnover	324.5	283.2
Operating profit	36.0	31.3
Operating margin	11.1%	11.1%
Capex	7.2	5.3

2007 developments

- **Insurance outsourcing:** We have recently been selected by Marsh Ltd as preferred partner to transform and deliver its back office administration services, based in Norwich. As part of this agreement, 650 staff based in Norwich and work based in Pune, India, will transfer to Capita.
- **Acquisition:** The successful integration of CMGL (acquired in April) has made us clear leader in providing support services to the London insurance market. This is enabling us to grow revenues strongly across our core propositions of BPO, run-off management services and consultancy.
- **Insurance distribution:** A series of new business successes drove organic growth of the policy books under management by some 40%.
- **DSG international plc:** We generated £120m of sales for DSGi over the year – and this is set to grow following an agreement to handle Currys store telephone calls nationally. We retained the Best Outsourcing Partnership award at the CCA Awards and were runner-up for Best Outsourced Contact Centre.
- **eircom:** Our contracts with eircom continue to develop and grow. Our successful delivery has been reflected in further industry awards in 2007 including Team Leader of the Year at the prestigious Contact Centre Management Association awards.
- **Occupational Health:** This business continues to perform well, winning contracts with a number of new corporate clients and extending its largest single contract with HMRC for a further two years.

2008 priorities

- Maintain high levels of compliance across the regulated and legal businesses and develop solutions which help clients meet increasingly stringent regulatory requirements
- Focus on core markets of insurance distribution, claims services, commercial insurance and BPO to drive organic growth through relationships, market presence and quality services
- Enhance margins through efficient use of technology, management, locations (including India) and cross-selling services across the integrated insurance business
- Continue investment in enhanced technology and shared technology platforms
- Position the business to build on the successful services and sales successes of the past two years in core markets, particularly insurance broking and distribution.

7. ICT & Advisory Services

contains our ICT business which supports the Group's operations and external clients as well as our advisory business.

	2007 £m	2006 £m
Turnover	291.9	252.3
Operating profit	29.0	25.1
Operating margin	9.9%	9.9%
Capex	9.1	4.9

2007 developments

- **Service Birmingham:** ICT transformation substantially completed, resulting in a robust infrastructure and delivery of IT services that consistently meet target KPIs. Good progress in delivery of Business Transformation programmes with Birmingham City Council. Corporate Services Transformation Programme went live in October and is on target to deliver cashable savings of £28m in 2007/08. Over 500 Service Birmingham employees are now co-located in a single state-of-the-art facility. In the annual Computing Awards we won IT Professional of the Year and IT Outsourced Project.
- **Harrow Council:** Just two years into our 10-year partnership, we have delivered £37m worth of savings against our target of £45m savings across the life of the contract. This has been achieved through a series of IT projects (including delivering SAP financial, MI and CRM systems in just 11 months) in tandem with procurement and process efficiency initiatives. In addition we designed and delivered a contact centre and one-stop-shop, enhancing the Council's frontline services.
- **Capita IT Services:** This business continues to support both external clients and internal contracts and businesses. Particular success was demonstrated in local government by the addition of IT support for the Swindon and Southampton partnerships and a contract extension at South Northants DC. In addition, the business continues to develop specific propositions and services to meet market demand such as service portfolio management and virtualised hosting solutions.
- **Mission Assurance and Testing:** In a record year, Mission's recruitment business achieved its largest ever number of permanent placements and increased the number of contractors deployed by 71%. Its consultancy business won significant new business, particularly in the insurance and retail financial services sectors, and extended existing internal and external client relationships. Mission secured its first substantial multi-year managed services contract and first full outsourcing contract involving the transfer of client staff.
- **Capita Advisory Services:** After a change of management and refocusing of services this business achieved an uplift in trading in the second half of the year. It is now well placed for 2008. It secured new client engagements with Breckland DC, Kingston-Upon-Thames BC, NHS Institute and Nottingham Trent University.
- **Capita Communications:** This new business was formed through the integration and refocusing of our design, print and fulfilment operations to deliver outsourced marketing solutions.

2008 priorities

- Continue to deliver and expand local government transformation partnerships
- Continue to support Birmingham City Council in achieving its Business Transformation objectives, establish sales from Service Birmingham to other public sector organisations and achieve ISO 2000 accreditation for Service Birmingham
- Continue to widen and integrate our portfolio of consultancy and support services to meet client demand
- Continue development of shared ICT platforms and infrastructure
- Continue to develop and enhance Group-wide ICT to support the Group's expansion and provide scalable solutions for additional major contracts.