

Guide to key performance indicators

Communicating the measures that matter*

“Although narrative reporting requirements remain fluid, reporting on KPIs is here to stay. I welcome this publication as a valuable contribution to helping companies choose which KPIs to report and what information will provide investors with a real understanding of corporate performance.”

Peter Elwin

Head of Accounting and Valuation Research

Cazenove Equities

“Using management’s own measures of success really helps deepen investors’ understanding of progress and movement in business. Whether contextual, financial or non-financial, these data points make the trends in the business transparent, and help keep management accountable. The illustrations of good practice reporting on KPIs shown in this publication bring alive what is required in a practical and effective way.”

Roger Hirst

Director of European Equity Research

Bear Stearns International

Introduction

Narrative reporting - whether in the form of an Operating and Financial Review (OFR), Management Discussion and Analysis (MD&A), a Business Review or other management commentary - is vital to corporate transparency. Key performance indicators (KPIs), both financial and non-financial, are an important component of the information needed to explain a company's progress towards its stated goals, for all of these types of narrative reporting.

But despite this fact, KPIs are not well understood. What makes a performance indicator "key"? What type of information should be provided for each indicator? And how can it best be presented to provide effective narrative business reporting?

This publication continues our series of practical guides on aspects of transparent corporate reporting. Following on from our *"Guide to forward-looking information"*, we address the UK legislative requirement for KPIs, as well as providing answers to the questions highlighted above.

In responding to these questions we don't just look at the guidance currently available on the details of narrative reporting and KPIs. Instead, like the previous guides in our series, this publication draws on the wealth of expertise that PricewaterhouseCoopers has gained through several years of research among investors and directors,

and through initiatives such as ValueReporting™ and the Building Public Trust Awards.

As a result, we seek to illustrate what good reporting of KPIs looks like. We bring to life our suggestions regarding both the content and presentation of KPIs with a collection of good practice examples, drawn from the UK and elsewhere.

Together, these practical examples show how some companies are already making a virtue of reporting the measures that are critical to an understanding of business performance and delivery against their chosen strategy.

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“As someone working on ways to improve organisational performance measures, I know how important it is to look for guidance and the best of what others have done. Those looking to improve their choice and use of key performance indicators will find thought provoking ideas and valuable examples of good practice.”

Professor Sir Andrew Likierman
London Business School

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Narrative reporting

KPIs – a critical component

Regulatory environment

The specific requirements for narrative reporting have been a point of debate for several years now. However one certainty remains: the requirement to report financial and non-financial key performance indicators.

At a minimum, UK companies have to comply with the Business Review legislation. Extracts from this legislation related to KPIs are shown in Exhibit 1 below. Directors of all companies – except those businesses defined as ‘small’ by statute – are currently required by law to include a Business Review in their Directors’ Report.

Exhibit 1: Directors’ Report:

Business review: extracts from current legislation

6. The review must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include:
 - (a) analysis using financial key performance indicators, and
 - (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.*

“Key performance indicators” means factors by reference to which the development, performance or position of the business of the company can be measured effectively.

Note: *There is an exemption from 6(b) for medium-sized companies

Source: Companies Act 2006, section 417(6)

The rest of this guide will look at existing guidance on KPI reporting, show what these requirements mean in practice and provide examples from companies’ corporate reporting, illustrating both the content and presentation styles being used in effective KPI reporting.

Existing KPI guidance

The Accounting Standards Board (ASB) Reporting Statement on OFRs, released in January 2006 (which is virtually identical to the original Reporting Standard 1 (RS1) for OFRs), provides useful insights into what represents good practice in narrative reporting, including guidance for KPI disclosures.

In a press release issued on 29 November 2005 the Financial Reporting Council (FRC) commented that:

“Regardless of whether or not an OFR is a statutory requirement, the FRC’s view of best practice remains unchanged. RS1 is the most up-to-date and authoritative good source of best practice guidance for companies to follow.”

Using both the Reporting Statement and our own research into the information needs of the capital markets and good practices in reporting, this publication sets out what we believe are the elements that should be included for effective reporting of KPIs, as well as what we consider to be the bare minimum information that companies should include on other performance indicators.

In determining what information to report about KPIs, preparers should also bear in mind the overriding tenets of Business Reviews. These are that a Business Review should:

- be a balanced and comprehensive analysis
- be a fair review of the business
- provide information to the extent necessary for an understanding of the development, performance or position of the business

These three principles remain critical to transparent corporate reporting.

Choosing performance indicators

How many KPIs and which ones?

As we engage with companies around narrative reporting and how they might best respond, the same questions keep arising around KPIs. In this section we answer each in turn.

What is “key”?

The starting point for choosing which performance indicators are key to a particular company should be those that the Board uses to manage the business. In our experience, many Boards tend to receive financial performance indicators, even though they may be communicating strategies such as maximising customer experience, or attracting and retaining the best and brightest people.

A challenge is whether the KPIs currently presented to the Board are those that allow them to assess progress against stated strategies, and when reported externally, allow readers to make a similar assessment. If not, is this because the information is simply not available or because it is not yet escalated to the Board but may instead be assessed by management of individual business units?

In addition, the KPIs will to a degree be conditioned by the industry in which a company operates. So, for example, a company in the retail industry might use sales per square foot and customer satisfaction as

key performance indicators, whereas an oil and gas company might opt for measures of exploration success, such as the value of new reserves.

However, management should not feel compelled to create KPIs to match those reported by their peers. The overriding need is for the KPIs to be relevant to that particular company. Management should explain their choice in the context of the chosen strategies and objectives and provide sufficient detail on measurement methods to allow readers to make comparisons to other companies' choices where they want to.

As our ongoing research has expanded across industries and as our experience in applying our knowledge to the real world of corporate reporting has grown, we have tailored our underlying Corporate Reporting Framework to reflect the elements and measures that are most important for a particular industry. Examples of the measures that matter to a sample of industries are shown in Exhibit 2.

Exhibit 2: Measures that matter across industries

Banking	Petroleum	Retail
Customer retention	Capital expenditure	Capital expenditure
Customer penetration	Exploration success rate	Store portfolio changes
Asset quality	Refinery utilisation	Expected return on new stores
Capital adequacy	Refinery capacity	Customer satisfaction
Assets under management	Volume of proven and probable reserves	Same store/like-for-like sales
Loan loss	Reserve replacement costs	Sales per square foot/metre



More information on the Corporate Reporting Framework and our supporting industry-specific frameworks is available at www.corporatereporting.com.

How many KPIs?

Giving the reader multiple performance measures without explaining which ones are key to managing their business does not aid transparency. As noted previously, the choice of which ones are key is unique to each

company and its strategy; it is therefore impossible to specify how many KPIs a company should have. However, our experience suggests that between four and ten measures are likely to be key for most types of company.

Segmental or group KPIs?

Management need to consider how KPIs are collated and reported internally – whether they make sense when aggregated and reported at a group level, or would be more usefully reported at business segment level.

In some instances it may be more appropriate to report separately KPIs for each business segment if the process of aggregation renders the output meaningless. For example it is clearly more informative to report a retail business segment separately rather than combining it with a personal financial services segment.

How rigid is the choice of KPIs?

Management should reflect on whether the KPIs chosen continue to be relevant over time.

Strategies and objectives develop over time, making it inappropriate to continue reporting on the same KPIs as in previous periods. Equally, more information may become available to management, facilitating reporting of new KPIs that provide a deeper

understanding of the business, or changing how an existing KPI is calculated.

The choice of KPIs is not set in stone for all time: but the reason for, and nature of, changes in KPIs and how they are measured and reported should be clearly explained.

Does reliability matter?

Management may sometimes be concerned about the reliability of some of the information reported on KPIs, particularly as they are encouraged to move beyond the more traditional financial KPIs which are usually the output of established systems and controls processes and routine audit. Whilst there is no specific narrative reporting requirement for KPIs to be reliable, it is understandable that management want the nature of the information to be clear to the users of narrative reports.

In order to address this issue and provide readers with useful

information, we believe it is more important that the limitations of the data and any assumptions made in providing it are clearly explained. Readers can then judge the reliability for themselves and make any necessary adjustments in their own analysis. Where data has been specifically assured by independent third parties, identifying this may also assist the reader.

It is also worth noting that our experience shows that readers are often as interested in the trend of a KPI as the absolute performance being reported.

Other performance indicators

Management may also disclose other quantified measures which they use to monitor trends and factors and which can provide further context to their narrative reporting.

However, if they are not deemed by management to be KPIs and/or are outside the control of the entity, the level of information about each one will generally be less than for a KPI. In our view this would, at a minimum include: its definition and

calculation and, where available, the corresponding amounts for the preceding financial year.

Examples of such measures, which are typically outside management's control, include:

- Advertising industry – advertising growth rates
- Insurance industry – life expectancy demographic data
- Oil and gas industry – commodity prices and supply/demand data

Model for effective communication of KPIs

The following pages set out a model for reporting on KPIs to ensure users can fully understand and interpret them. The information suggested for each KPI has been shown through our research to be useful to both investors and management. At the same time, the model also largely reflects the disclosures advocated in the ASB's Reporting Statement for KPIs.

We believe that this model provides companies with a sound basis for moving towards good practice, as they seek to improve their communication with stakeholders in their narrative reporting.

Reporting key performance indicators

A model for effective communication

We have developed the guidance below from the ASB's Reporting Statement and our own extensive knowledge from nearly a decade of research into how companies communicate effectively with their investors. The resulting model provides for the comprehensive communication of KPIs.

Link to strategy	The primary reason for including performance indicators in corporate reporting is to enable readers to assess the strategies adopted by the company and their potential to succeed.	KPIs presented in isolation from strategies and objectives, or vice versa, cannot fulfil this requirement, and will fail to provide the reader with the level of understanding they need.
Definition and calculation ⁽¹⁾	Given the rapidly increasing usage of industry-specific terminology, clear definitions of performance indicators add greatly to the reader's understanding of exactly what is being measured and allows comparisons between companies within an industry.	In the absence of standards for the measurement of many industry-specific indicators, and with many companies also applying their own indicators, an explanation of the components of a metric and how it is calculated is vital.
Purpose	It is important for management to explain why they believe a performance indicator is relevant. In many instances this will be because it measures progress towards achieving a specific strategic objective.	The rationale for why certain quantified measures are considered "other performance indicators" should also be communicated.
Source, assumptions and limitations	To enable readers to make their own assessment of the reliability of the information, it is important to identify the sources of the data used in calculating performance indicators and any limitations on that data. Any assumptions made in measuring	performance should be explained so that readers can reach an informed view of judgements made by management. An indication of the level, if any, of independent assurance of the data would also be valuable.
Future targets	Some performance indicators are best suited to a quantification of future targets. Expectations and aims for other indicators may be better explained in commentary.	Either way, a forward-looking orientation is essential for readers to assess the potential for strategies to succeed, and to give them a basis against which to assess future performance.

Reconciliation to GAAP

Performance indicators may be financial or non-financial. Where the amounts measured are financial, but are not “traditional” measures required by accounting standards, eg GAAP, it is good practice to explain any differences.

A reconciliation should therefore be provided between accounting measures and non-GAAP measures.

Trend data ⁽¹⁾

Measurement of performance in isolation over a single period does not provide the reader with very useful information. An indication of how performance has improved or worsened over time is much more valuable in assessing the success of management’s strategies.

It is also beneficial to explain to the reader what a particular trend in the data means – for example, an increasing measure is not always a sign of strength – and to explain management’s actions to address or maintain such trends.

Segmental

Often KPIs make little sense when consolidated at group level. In those instances corporate reporting users want more detailed segmental information to assess progress towards specific segmental strategic aims.

Performance indicators that are relevant to a specific segment’s industry or strategy should therefore be provided in addition to those with a more group-wide focus.

Changes in KPIs

Comparability over time is a key principle of good corporate reporting. It is recognised that KPIs may evolve over time as strategies change or more information becomes available.

When such changes are made to the KPIs being monitored, either in terms of the KPIs used or how they are calculated, these changes need to be explained.

Benchmarking

Performance benchmarked against a relevant external peer group, with an explanation of why these peers were chosen, is considered extremely valuable to users.

This provides a clear indication of who management believes the company’s competitors to be, as well as setting the company’s own performance in the context of a well-defined peer group.

Note: (1) According to the ASB’s Reporting Statement, this information is also recommended disclosure for performance indicators other than KPIs.

Content and presentation of key performance indicators

Bringing KPI reporting alive

In our experience, real-life examples of progressive companies' reporting are valuable in demonstrating the breadth of content and quality of presentation that can be achieved.

The following examples were chosen on the basis of their ability to align their KPIs with specific group strategies and objectives and to illustrate a variety of content aspects and presentation styles.

Which aspect of the model for content does each example demonstrate?

Company	Definition and calculation	Purpose	Source and assumptions	Future targets	Reconciliation to GAAP	Trend data	Segmental	Changes	Benchmarking
Bankinter	✓	✓	✓			✓	✓		✓
BMO Financial Group	✓	✓		✓	✓	✓			✓
The Capita Group	✓	✓		✓		✓			
Centrica	✓		✓			✓		✓	
HBOS				✓		✓	✓		
TELUS			✓	✓		✓	✓		

The accompanying illustration serves as a guide for “reading” the examples found in the following pages. To the companies that allowed us to feature their work, PricewaterhouseCoopers expresses its sincere appreciation.



Bankinter



Spanish financial services group Bankinter provides detailed information on a set of KPIs based around each of their strategic pillars, including the pillar of service quality. Not only do they provide segmental data and benchmark information on customer satisfaction: the Group’s measure of service quality – they also support the disclosures by explaining the process and statistical validity of the customer surveys.

Our value proposal, based on service quality, innovation and multi-channel banking, which is endorsed on a daily basis by the thousands of customers who choose to bank with us, continues to be relevant. Rather than observing any signs of weakness in it, our perception is that, if anything, it should be reinforced.

That is why - because our value proposal continues to be valid in attracting and retaining customers and providing them with quality service - we at Bankinter continue to think that our future should be based on organic growth and in order to achieve this we must continue to strengthen our proposal, endeavouring to differentiate it clearly from that presented by the other banks.

This recipe for success, which has led us to where we are today, remains, in our opinion, a perfectly valid strategy with which to face the future and we are sure it will continue to give us excellent results.

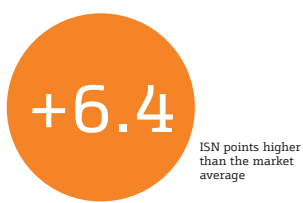
Service quality is clearly identified as a core strategic priority.

01 Quality

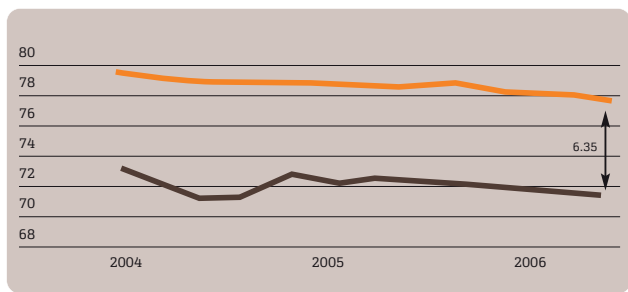
Provides headline disclosures on the KPI used to measure progress.

Customer satisfaction above market average; the result of an intelligent effort.

Quality is Bankinter's most important competitive advantage. In December 2006, net satisfaction with the Bank continued to be 6.4 points above the market average; a truly privileged position in the world of banking for private individuals.



Bankinter vs Market. Private individuals

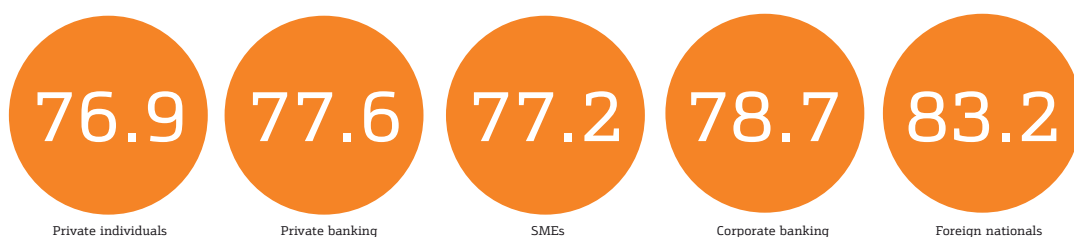


	2005	2006
Bankinter	77.76	76.81
Market	71.31	70.46
Gap	6.45	6.35

Geographic scope: Nationwide, for towns of over 50,000 inhabitants.
Group: General public over 18 years of age, holding demand deposits or savings accounts at a financial institution.
Sample: 1,400 interviews per quarter.
Survey methodology: Computer-assisted telephone interview.
Sampling error: ±2.7%.

14 aspects of service surveyed; the most highly rated would be:
Treatment and attention
Training and professionalism
Knowledge of customers' requirements
Information on conditions and costs
Advice
Employee's attitude to incidents
Transaction speed
Clarity of statements
Availability of human and technical resources

Source: Bankinter Annual Report 2006



ISN is measured on a scale of 0 through 100 and is interpreted as follows:

- > 85 Very satisfied/excellent.
- 75-85 High level of satisfaction.
- 60-75 Needs improvement.
- < 60 Needs action.

	2005	2006
Private individuals	78.11	76.90
Private banking	77.27	77.55
SMEs	77.53	77.19
Corporate banking	79.06	78.67
Foreign Nationals		83.21

(*) Due to the characteristics of its customers, the Personal Finance segment is not surveyed monthly. Instead an annual survey is conducted and the ISN score for 2006 was 82.4 points, which was 1.5 points more than in 2005.

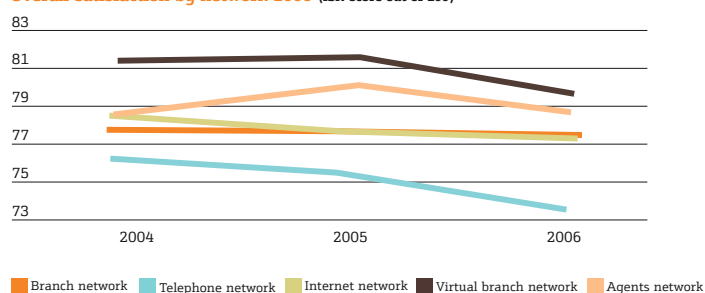
Trend data on customer satisfaction statistics is clearly presented and segmented in several ways, as shown here by customer type, distribution channel, and service platform.

The measurement of this perception obtained from customers' opinions is checked against the different product indicators, the market research and the internal satisfaction survey, and this enables us to carry out actions for continuing improvement focused on customer relations and so to develop product solutions and enhanced procedures.

Once again we reiterate our thanks to all our customers for the care, time and effort they take to respond to our surveys. Their opinions enable us to develop the aspects and adjust the services that give them most satisfaction.

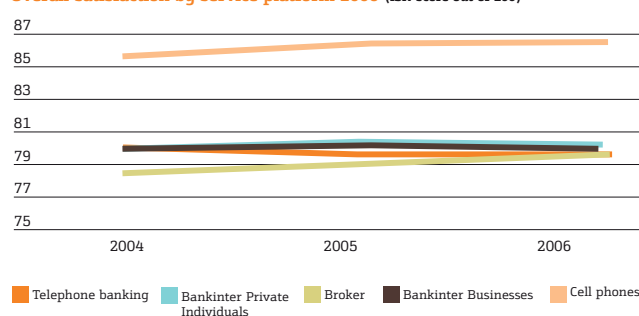
	2005	2006
Branch network	77.83	77.55
Telephone network	75.26	73.49
Internet network	77.85	77.42
Virtual branches	81.26	79.27
Agents network	79.8	78.80

Overall satisfaction by network 2006 (ISN score out of 100)



	2005	2006
Telephone Banking	79.20	79.39
Bankinter Private individuals	80.55	80.33
Broker Bankinter	79.09	79.23
Bankinter Businesses	79.97	79.88
Cell phones	86.50	86.69

Overall satisfaction by service platform 2006 (ISN score out of 100)



BMO Financial Group



The set of KPIs provided by the Canadian financial services group BMO are clearly linked to their strategic priorities. Not only does the Group provide target and trend data, but they also set out performance compared to two well-defined peer groups. Some of the KPIs complement financial statement data, and reconciliations of such information to GAAP is provided.

At BMO, we consider disclosure to be an essential component of effective corporate governance. We place a high value on stakeholders of the organization being able to understand our operations, goals and values, as well as our financial performance.

Recognise the importance of good disclosure.

Our Financial Targets

BMO's overall governing objective and annual targets for selected important financial performance measures are set out in the adjacent chart. Although our success in achieving our governing objective of delivering first-quartile total shareholder return is dependent on the relative performance of our peer group, we believe that we will deliver first-quartile total shareholder return by meeting our medium-term financial objectives of increasing EPS by an average of at least 10% per year over time and by earning an average annual ROE of 18% to 20% over time (previously 18% to 19%). Annual financial targets represent checkpoints in the achievement of our medium-term objectives, but they also reflect economic conditions prevailing at the time and may be influenced by results in base years used for comparison purposes. As such, in any particular year our annual financial targets may be higher or lower than our medium-term financial objectives.

2006 Canadian Bank Scorecard						
Reported basis, including one-time/special items (%)						
	BMO	RBC	CIBC	Scotia	TD	National
Average annual total shareholder return (five-year)	19.1	19.8	16.2	21.2	16.1	24.1
EPS growth	11.2	39.7	1715	12.7	98.1	4.7
Return on equity	19.2	23.5	27.9	22.1	25.5	20.1
Net economic profit growth ²	10.3	79.8	340.6	18.1	23.3	(0.5)
Revenue growth ^{1,2}	1.5	10.0	(8.7)	8.6	23.9	5.0
Cash productivity ratio ^{1,2}	62.4	62.3	64.4	55.0	54.3	64.0
PCL as a % of average net loans and acceptances	0.09	0.16	0.33	0.10	0.21	0.14

1. On a taxable equivalent basis.
2. Non-GAAP measure. See page 34.

Clear link between objectives, KPI targets and results.

Our Governing Objective

To maximize the total return to BMO shareholders and generate, over time, first-quartile total shareholder return relative to our Canadian and North American peer groups.

Our Medium-Term Financial Objectives

To increase EPS by a minimum of 10% per year over time; to earn average annual ROE of between 18% and 20% over time; and to maintain a strong regulatory capital position, consistent with our peers.

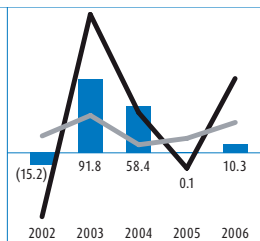
2006 Financial Targets	2006 Financial Performance	Target Met	2007 Financial Targets
• ROE of 17% to 19%	• ROE of 19.2%	✓	• ROE of 18% to 20%
• Specific provision for credit losses of \$400 million or less	• Specific provision for credit losses of \$211 million	✓	• Specific provision for credit losses of \$400 million or less

Seven KPIs are benchmarked against a defined peer group (see next page for definition) with narrative explanation also provided. Table notes those measures that are non-GAAP.

Net Economic Profit (NEP) Growth

- NEP, a measure of added economic value, grew 10.3% to a record \$1,230 million.
- Results in Private Client Group and Corporate Services drove the improvement, as the other operating groups were allocated higher capital in 2006.

Further details are provided on page 33.



NEP Growth (%)

- NEP growth of 10.3% in 2006 was below the Canadian peer group average of 92.1% and the North American peer group average of 37.7%. The averages were favourably affected by the 2005 litigation provisions and the 2006 gain on sale of a business.

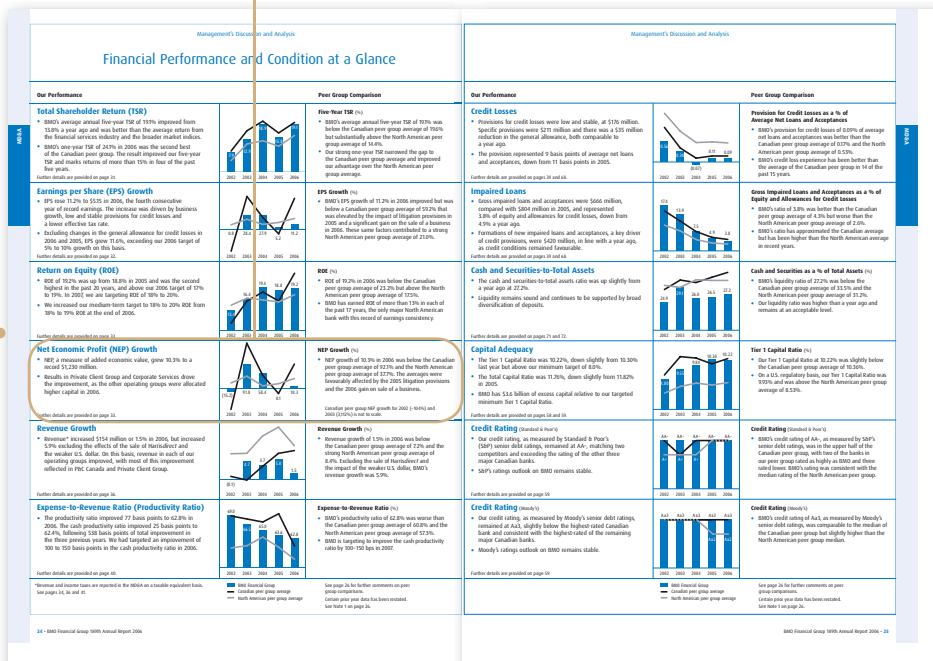
Canadian peer group NEP growth for 2002 (-104%) and 2003 (3,112%) is not to scale.

Net economic profit (NEP)

represents cash net income available to common shareholders, less a charge for capital. NEP is an effective measure of economic value added. NEP is a non-GAAP measure. See page 34.

Consistently reports on 12 KPIs against peer group averages, as shown in detail here for NEP Growth.

Provides detailed explanation of non-GAAP measures, including a reconciliation to financial statements.



Non-GAAP Measures

BMO uses both GAAP and non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures that adjusted to a basis other than generally accepted accounting principles (GAAP) do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies.

Net economic profit is another non-GAAP measure. It represents cash earnings available to common shareholders less a charge for capital, and is considered an effective measure of added economic value.

The Canadian peer group averages are based on the performance of Canada's six largest banks: BMO Financial Group, Canadian Imperial Bank of Commerce, National Bank of Canada, RBC Financial Group, Scotiabank and TD Bank Financial Group. The North American peer group averages are based on the performance of North America's largest banks, consisting of 15 banks in North America having shareholders' equity that is at least 75% as large as BMO's. It includes the Canadian peer group, except National Bank of Canada, as well as Bank of America Corporation, Citigroup Inc., J.P. Morgan Chase & Co., KeyCorp, National City Corporation, The PNC Financial Services Group Inc., SunTrust Banks Inc., U.S. Bancorp, Wachovia Corporation, and Wells Fargo & Company.

GAAP and Related Non-GAAP Measures Used in the MD&A

(\$ millions, except as noted)	2006	2005	2004
Net income	2,663	2,396	2,295
Amortization of intangible assets (net of income tax)	36	74	78
Cash net income (1)	2,699	2,470	2,373
Preferred share dividends	(30)	(30)	(31)
Charge for capital (1)	(1,439)	(1,324)	(1,230)
Net economic profit (1)	1,230	1,116	1,112

Defines the peer groups.

The Capita Group



The Capita Group, the UK business process outsourcing and professional services company, clearly summarises its areas of strategic focus, including the need for clear financial KPIs. The Group then sets out its financial KPIs in a table, supported by more detailed trend data and forward-looking information. The same approach is adopted for non-financial KPIs, as shown here for its people measures.



Provides an overview of the four core elements of the group's strategy, expanding on each one in a separate section.

Our business strategy

2) How do we manage and measure our growth?

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

So our growth is underpinned by:

- Strong structure and control
- Clear financial KPIs
- Resource and operational controls
- Careful risk management.

b) Clear financial key performance indicators (KPIs)

Clearly identifies the group's six 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 building value for our shareholders on a consistent basis over the long term.

Identifies the need for clear financial KPIs to underpin the group's growth strategy as well as resource and operational controls.

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

Identifies, for each of the group's financial KPIs, the group's aim and performance year-on-year.

Source: The Capital Group Plc Annual Report and Accounts 2006

Capital expenditure

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

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

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

Expands on each financial KPI, including the provision of trend analysis.



c) Resource and operational controls

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

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

Expands on the importance of resource and operational controls, specifically identifying people as a critical resource.

Retaining and developing people

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

Our people are key to our development

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

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

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

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

Explains how the group attracts, retains and manages its people, supported by quantifiable metrics.

Priorities	Aim	Year end 2006	Year end 2005
Senior management retention (earning over £90k)	To attract and retain the appropriate level of senior management to drive the strategic direction of the Group	91%	92%
Overall employee retention	To attract and retain the right people to deliver Group strategy, maintaining employee retention at or above industry average (81.7%)	82%	81%

Centrica



Centrica, the UK utilities company, provides a clear set of financial and non-financial KPIs in an easy to read summary. The Group supports each KPI with a brief description of how the KPI is measured, its source, target and performance during the year.

In this section, as part of our commitment to enhanced narrative reporting, the Board and the Executive Committee have set out the key performance indicators (KPIs) that we use to monitor progress against our strategy.

Measuring our performance

Clearly identifies the groups KPIs over a two page spread.

Financial

Adjusted basic earnings per share (EPS)

Adjusted basic earnings per share

2006	2005	2004
19.4	18.2	18.1

Adjusted EPS is disclosed and reconciled in note 11 on page 64.

Non-financial

Lost-time injuries (LTI)

Lost-time injuries per 100,000 hours worked

2006	2005	2004
0.6	0.73	1.1

* this measure includes the LTI consequences of the incident at Rough. See page 25 for commentary.

Expands on each key performance indicator, including trend analysis and a target.

Clearly explains that a new non-financial KPI will be introduced during the year.

Customer satisfaction
In 2006, we used a variety of measures across our business units to measure levels of customer satisfaction. During 2007, a Group customer KPI will be developed that recognises our position as a provider of energy and related services to both domestic and commercial markets. This information will be included in our 2007 Annual Report.

Measures internally.

HBOS



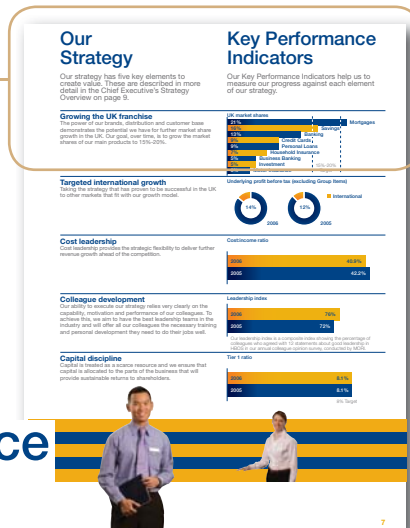
HBOS, the UK mortgage and savings provider, provide a comprehensive set of financial and non-financial KPIs which are clearly linked to their strategic priorities. A consistent presentational style is applied at both the group and segmental level.

Our Strategy

Our strategy has five key elements to create value. These are described in more detail in the Chief Executive's Strategy Overview on page 9.

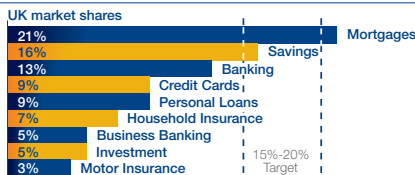
Key Performance Indicators

Our Key Performance Indicators help us to measure our progress against each element of our strategy.



Growing the UK franchise

The power of our brands, distribution and customer base demonstrates the potential we have for further market share growth in the UK. Our goal, over time, is to grow the market shares of our main products to 15%-20%.



Our Strategy

Our strategy is to be the UK's leading insurance and investment group using our multi-channel, multi-brand operating model and accessing the significant HBOS customer base to grow profitable market share.

Key Performance Indicators

Our Key Performance Indicators help us to measure our progress against each element of our strategy.

Growing market share of personal lines insurance	Growing market share of investment products	Driving customer satisfaction	Cost leadership
Our strategy is to be the UK's leading insurance and investment group using our multi-channel, multi-brand operating model and accessing the significant HBOS customer base to grow profitable market share.	As part of the UK's largest listed savings provider, our investment business is well placed to benefit from higher savings rates, supporting demographics and increasing recognition by individuals that they will need to save for their retirement.	Service is central to our growth ambitions. Strong both new and existing relationships, we are investing in technology to improve efficiency and to further enhance service standards. For example in General Insurance, responding quickly when customers call to register a claim on their household insurance allows us to provide our customers with a better service.	We seek to maintain efficiency in our new business processing, existing business administration, claims handling and customer service, with investment in supporting technology and process improvements.
£581m Underlying profit before tax up 19%	£581m Underlying profit before tax up 19%	£581m Underlying profit before tax up 19%	£581m Underlying profit before tax up 19%

Applies the same presentational style, differentiated by colour, for each business segment.

Our Strategy

Our strategy is to be the UK's leading insurance and investment group using our multi-channel, multi-brand operating model and accessing the significant HBOS customer base to grow profitable market share.

Key Performance Indicators

Our Key Performance Indicators help us to measure our progress against each element of our strategy.

Growing market share of personal lines insurance

There are significant opportunities through the Group's Retail network, through intermediaries and our joint venture with esure to grow market share in Household, Motor and Repayment Insurance. In particular, we will use HBOS's market leading position in mortgages to grow market share of Household Insurance.

% of Group Mortgage customers who have our Household Insurance

2006	13%
2005	14%

General Insurance sales (Gross Written Premiums £m)

2006	£1,894m
2005	£1,977m

TELUS



TELUS, the Canadian telecommunications company provides detailed information on its performance scorecard. Not only does the Group set out its performance against targets for a series of KPIs at group and business unit level, it also sets out the key assumptions that underpin both the 2006 and 2007 targets.

1.5 Performance scorecard for 2006 results

Eleven of 15 original targets for 2006 were met or exceeded.

The following items were not met:

- Consolidated capital expenditures and wireline capital expenditures exceeded target ranges as a result of access growth requirements in Alberta and B.C. and other factors;
- Wireline external revenue was just under the bottom of the target range; and

- The number of wireless subscribers was approximately 3% lower than TELUS' original target for 2006 as a result of market growth being slower than originally expected, as discussed further below. By retaining focus on profitable subscriber growth and retention activity, the lifetime revenue per average subscriber increased by \$346 to \$4,771 in 2006, when compared with 2005. Churn rates remained low, while postpaid subscriber net additions in 2006 were 77% of the total net subscriber additions, comparing favourably to 73% in 2005.

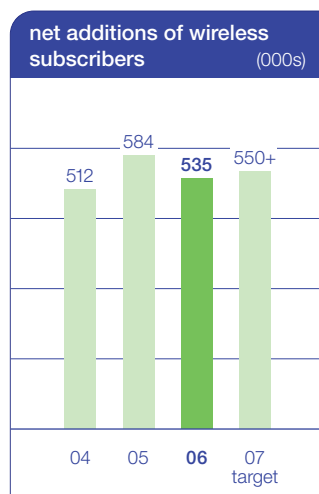
The following table summarizes TELUS' 2006 performance against its original targets and compares 2007 targets to 2006 results. For further detail on expectations for 2007, see Section 9: Looking forward to 2007.

Performance to 2006 targets and 2007 targets		Original targets for 2006	Result	Targets for 2007	Change from 2006
Consolidated					
Revenues	\$8.681 billion	\$8.6 to \$8.7 billion	✓	\$9.175 to \$9.275 billion	6 to 7%
Capital expenditures	\$1.618 billion	\$1.5 to \$1.55 billion	✗	Approx. \$1.75 billion	8%
Free cash flow ⁽⁴⁾	\$1.600 billion	\$1.55 to \$1.65 billion	✓	No target	–
Wireline segment					
Revenue (external)	\$4.823 billion	\$4.825 to \$4.875 billion	✗	\$4.85 to \$4.9 billion	1 to 2%
Non-ILEC ⁽⁵⁾ revenue	\$657 million	\$650 to \$700 million	✓	No target	–
Capital expenditures	\$1.191 billion	\$1.05 to \$1.1 billion	✗	Approx. \$1.2 billion	Unchanged
High-speed Internet subscriber net additions	153,700	More than 100,000	✓✓	More than 135,000	(12)% or better
Wireless segment					
Revenue (external)	\$3.858 billion	\$3.775 to \$3.825 billion	✓✓	\$4.325 to \$4.375 billion	12 to 13%
Capital expenditures	\$427 million	Approx. \$450 million	✓✓	Approx. \$650 million	29%
Wireless subscriber net additions	535,200	More than 550,000	✗	More than 550,000	3% or more

Summarises performance against targets for its KPIs at a group and segmental level.

Wireless segment 2007 targets

See Forward-looking statements at the beginning of Management's discussion and analysis.



Uses graphical analysis to support the communication of performance against targets.

The following key assumptions were made at the time the original targets for 2006 were announced on December 16, 2005.

Key assumption for 2006 targets	Actual result and impact on results
Canadian real GDP growth of 3.1%	2.7% (estimate). Canadian real GDP growth was lower than originally expected, although recent estimates showed very high growth rates in Alberta and B.C. The modestly lower national growth rate did not affect results significantly.
Increased wireline competition in both business and consumer markets	Confirmed. Examples of increased competition in the business market include bundling of web-based and information technology services with access, wireless and other data services. Increased competition in the consumer market with cable-TV phone sales was one factor in the 5.2% decrease in residential access lines in 2006.
Canadian wireless industry market penetration gain would be approximately five percentage points	Estimated at 4.6 percentage points. Market growth was at the low end of expectations and contributed to achieving 3% fewer net additions of wireless subscribers than original targets.
TELUS would record approximately \$100 million of restructuring and workforce reduction charges	\$67.8 million. A lower charge was recorded primarily as a result of the restructuring initiatives being implemented more efficiently than expected with a greater number of staff being redeployed to growth areas of the business and therefore not requiring severance costs.
An effective income tax rate of approximately 35%	Approximately 24%. The tax rate was reduced by the revaluation of the future tax liability from the enactment of lower federal and provincial tax rates, elimination of the federal large corporations tax and reassessments relating to prior years.
No prospective significant acquisitions or divestitures and no change in foreign ownership rules	Confirmed.
Maintenance or improvement in credit ratings	Confirmed. Moody's Investors Service placed its Baa2 rating for TELUS under review for possible upgrade.

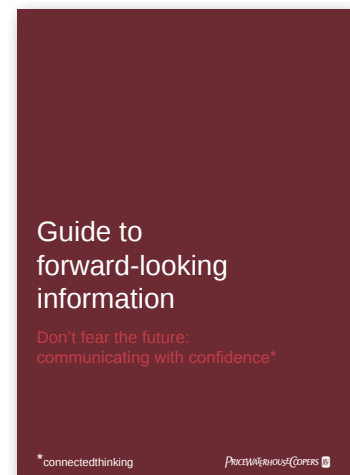
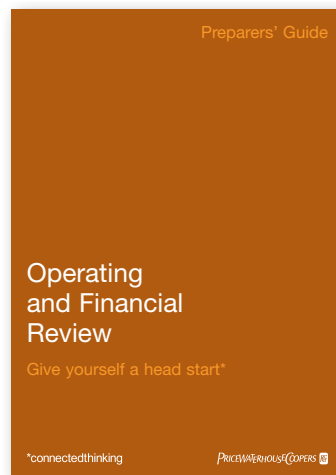
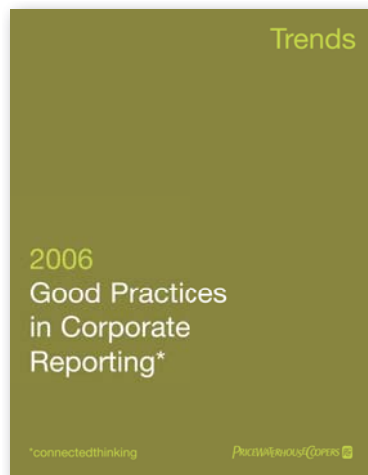
The company sets out the six key assumptions underpinning the 2006 target setting process, together with the actual outcome.

Assumptions for 2007 targets include:

- Economic growth consistent with recent provincial and national estimates by the Conference Board of Canada, including the revised 2007 real GDP growth of 2.7% in Canada;
- Increased wireline competition in both business and consumer markets, particularly from cable-TV and VoIP companies;
- Forbearance for local retail wireline services in major urban markets by the second half of 2007;
- No further price cap mandated consumer price reductions;
- A wireless industry market penetration gain of 4.5 to five percentage points;
- Approximately \$50 million of restructuring and workforce reduction expenses (\$67.8 million in 2006);
- A statutory tax rate of approximately 33 to 34%;
- A discount rate of 5.0% and an expected long-term average return of 7.25% for pension accounting, unchanged from 2006; and
- Average shares outstanding of 330 to 335 million shares for the full year.

Sets out the assumptions underpinning the 2007 target setting process.

Other corporate reporting publications



Report Leadership

Report leadership is a multi-stakeholder group that aims to challenge established thinking on corporate reporting. The contributors to this initiative are the Chartered Institute of Management Accounts (CIMA), PricewaterhouseCoopers LLP, Radley Yeldar and Tomkins plc.

Contact us

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