CORPORATE GOVERNANCE

IN THE DRIVING SEAT

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CORPORATE GOVERNANCE STATEMENT

Capita plc and its subsidiaries remain committed to maintaining high standards of corporate governance.

COMPLIANCE WITH THE FINANCIAL REPORTING COUNCIL'S UK CORPORATE GOVERNANCE CODE

Capita plc and its subsidiaries (the Group) remain committed to maintaining high standards of corporate governance.
The UK Corporate Governance Code 2016 (the Code) applies to accounting periods beginning on or after 17 June 2016. A copy of the Code is available from the Financial Reporting Council's website www.frc.org.uk. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in sections A to E of the Code.

Following the departures of Vic Gysin and Chris Sellers, there are now two Executive Directors on the Board, the Chief Executive Officer and Chief Financial Officer, which is more aligned with market practice in this area. The Board has six strong independent Non-Executive Directors, including the Chairman, to provide robust challenge and independent review.

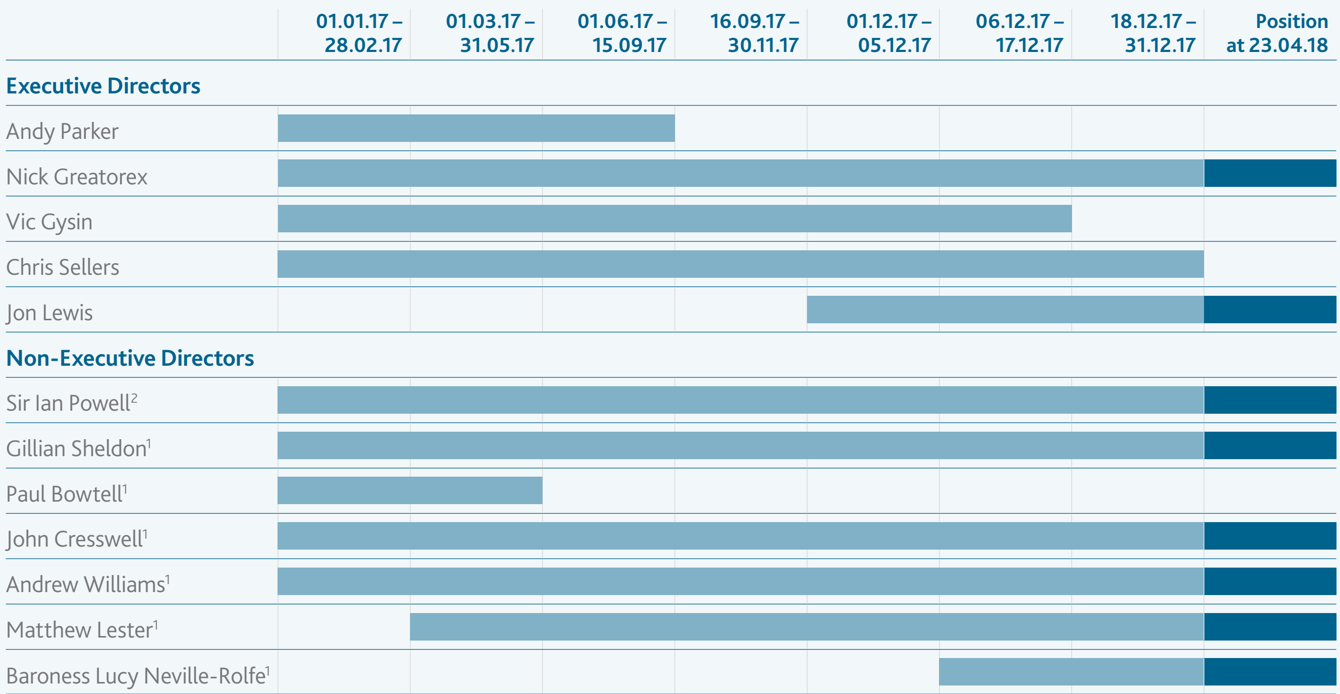
BOARD CHANGES IN THE YEAR

Name	Date	Position
Chris Sellers	1 January 2017	Appointed Group Business Development Director
Matthew Lester	1 March 2017	Appointed Non-Executive Director (Chair of Audit and Risk Committee from 1 June 2017)
Paul Bowtell	31 May 2017	Resigned as Non-Executive Director and Chair of Audit and Risk Committee
Andy Parker	15 September 2017	Resigned as Chief Executive Officer
Jon Lewis	1 December 2017	Appointed Chief Executive Officer
Baroness Lucy Neville-Rolfe	6 December 2017	Appointed Non-Executive Director
Vic Gysin	18 December 2017	Resigned as Group Operations & Performance Director

Nick Greatorex was appointed Interim Chief Executive Officer for the period from 16 September to 30 November 2017.

Further information on changes to the Board is set out in the Nomination Committee report on page 65.

BOARD COMPOSITION OVER THE YEAR



1 Independent in accordance with the Code.
2 Independent on appointment in accordance with the Code.

FREQUENCY OF MEETINGS AND ATTENDANCE

During 2017, the Board held nine scheduled meetings, excluding ad hoc meetings. Attendance of the Board Directors is recorded in the table below:

	Board meetings
Scheduled meetings	**9**
Sir Ian Powell	9
Jon Lewis[1]	1
Nick Greatorex	9
Gillian Sheldon	9
Matthew Lester[2]	7
John Cresswell	9
Andrew Williams	9
Baroness Lucy Neville-Rolfe[3]	1
Andy Parker[4]	6
Paul Bowtell[5]	4
Vic Gysin[6]	9
Chris Sellers[7]	9

1 Jon Lewis was appointed to the Board on 1 December 2017.
2 Matthew Lester was appointed to the Board on 1 March 2017.
3 Baroness Lucy Neville-Rolfe was appointed to the Board on 6 December 2017.
4 Andy Parker resigned from the Board on 15 September 2017.
5 Paul Bowtell resigned from the Board on 31 May 2017.
6 Vic Gysin resigned from the Board on 18 December 2017.
7 Chris Sellers resigned from the Board on 23 January 2018.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Due to the nature of the challenges faced in 2017, a number of additional ad hoc Board and Committee meetings were held during the year. In total, there were 48 Board and Committee meetings (including both scheduled and ad hoc meetings) held during 2017. Meetings held outside of the normal schedule need to be flexible and are often held by telephone.

Any Director's absence from Board meetings was previously agreed with the Chairman of the Board or the Chief Executive Officer.

During 2017, the following formal Director meetings took place:

– The Chairman held one-to-one individual review sessions with each Executive Director and each Non-Executive Director.
– The Non-Executive Directors met without Executive Directors.
– The Non-Executive Directors met with just the Chief Executive Officer.
– The Non-Executive Directors met without the Chairman, led by the Senior Independent Director.

BOARD LEADERSHIP

Consistent with previous years, the Board continues to support the need to segregate the responsibility for operating the Board and managing the underlying business. This will continue in 2018 with the separation of Sir Ian Powell's role as Chairman and the role of Jon Lewis as Chief Executive Officer.

During the year, Sir Ian Powell as Chairman and Gillian Sheldon as Senior Independent Director also held meetings comprising solely the Non-Executive Directors. Both Sir Ian and Gillian are available to meet with shareholders when requested.

ROLE OF THE BOARD

The Companies Act 2006 requires Directors to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of shareholders as a whole. In doing so, the Directors must have regard (amongst other matters) to:

The likely consequences of any decision in the long term.

The interests of the Company's employees.

The need to foster business relationships with suppliers, clients and others.

The impact of the Company's operations on the community and the environment.

The desirability of the Company maintaining a reputation for high standards of business conduct.

The need to act fairly towards all shareholders of the Company.

In addition to their statutory duties, the Directors must ensure that the Board focuses effectively on all its accountabilities.

The Board determines the strategic objectives and policies of the Group to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company: the Executive Directors are directly responsible for running the business operations and the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board. The Non-Executive Directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Following presentations by executive and divisional management and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

BOARD INDEPENDENCE

Non-Executive Directors are required to be independent in character and judgement. All relationships that may interfere materially with this judgement are disclosed as required under the conflicts of interest policy. The Board has determined that all the Non-Executive Directors who served during the year were independent and before and upon appointment as Chairman Sir Ian Powell met the criteria of independence as outlined in the Code.

The Board does not believe that a Non-Executive's tenure interferes materially with their ability to act in the best interests of the Group. The Board also believes that each of the Non-Executives has retained independence of character and judgement and has not formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group.

The Board is satisfied that no conflict of interest exists for any Director. This matter is a standing agenda item.

A formal schedule of matters reserved by the Board has been adopted and these include, but are not limited to:

Strategy and management, including responsibility for the overall leadership of the Group, setting the Group's values and standards and overview of the Group's operational management.

Structure and capital including changes relating to the Group's capital structure and major changes to the Group's corporate structure including acquisitions and disposals and changes to the Group's management and control structure.

Financial reporting including the approval of the Annual Report and Accounts, half-yearly report, trading statements and preliminary announcement for the final results. Also the approval of dividend policy, the setting and approval of treasury policies and establishing and maintaining accounting policies.

Internal controls, ensuring that the Group manages risk effectively and approves all acquisitions, disposals of assets and share acquisitions.

Contracts, including approval of all major capital projects and major investments including the acquisition or disposal of interests of more than 3% in the voting shares of any company or the making of any takeover offer.

Ensuring satisfactory communication with shareholders.

Any changes to the structure, size and composition of the Board.

BOARD OF DIRECTORS' INDUCTIONS AND TRAINING

Following appointment to the Board, all new Directors receive an induction tailored to their individual requirements. They are encouraged to meet and be briefed on the roles of key people across the Group and have open access to all business areas and employees to build up an appropriate level of knowledge of the business that extends beyond formal papers and presentations to the Board. All Directors have received an appropriate induction for their roles within Capita. These have included familiarisation with:

– terms of reference for all committees and matters reserved for the Board;
– overviews of the business via Monthly Performance Review (MPR) reports; and
– the Group approach to risk management.

Following the announcement of their appointments to the Board, Jon Lewis and Baroness Lucy Neville-Rolfe received training and induction sessions with the Chairman, Executive Directors, Group Company Secretary, Group Risk & Compliance Director and Group Internal Audit Director. Jon Lewis held further induction meetings with the Divisional Executive Officers and other senior management.

Ongoing training and briefings are also given to all Directors, including external courses as required.

GROUP COMPANY SECRETARY

All Board members have access to independent advice on any matters relating to their responsibilities as Directors and as members of the various committees of the Board at the Group's expense.

Francesca Todd, as Group Company Secretary, is available to all Directors and is responsible for ensuring that all Board procedures are complied with.

The Group Company Secretary has direct access and responsibility to the Chairs of the standing committees and open access to all the Directors. The Group Company Secretary has been appointed as Secretary to the Audit and Risk, Remuneration and Nomination Committees to ensure that there are no conflicts of interest. The Group Company Secretary meets regularly with the Chairman, the Chair of the Audit and Risk Committee and the Chair of the Remuneration Committee, and briefs them on areas of governance and committee requirements.

MATTERS RESERVED FOR THE BOARD

A formal schedule of matters reserved by the Board has been adopted and these include, but are not limited to:

Strategy and management, including responsibility for the overall leadership of the Group, setting the Group's values and standards and overview of the Group's operational management.

Structure and capital including changes relating to the Group's capital structure and major changes to the Group's corporate structure including acquisitions and disposals and changes to the Group's management and control structure.

Financial reporting including the approval of the half-yearly report, interim management statements and preliminary announcement for the final results. Also the approval of the dividend policy, the setting and approval of treasury policies and establishing and maintaining accounting policies.

Internal controls, ensuring that the Group manages risk effectively and approves all acquisitions, disposals of assets and share acquisitions.

Contracts, including approval of all major capital projects and major investments including the acquisition or disposal of interest of more than 3% in the voting shares of any company or the making of any takeover offer.

Ensuring satisfactory communication with shareholders.

Any changes to the structure, size and composition of the Board.

DIALOGUE WITH THE COMPANY'S SHAREHOLDERS

The Board encourages proactive engagement with the Company's investors and seeks to build a mutual understanding of objectives between Capita and its investors. As part of this process the Executive Directors make regular presentations and meet with institutional investors to discuss the Group's business, performance and strategy, addressing any issues of concern, obtaining feedback and consider corporate governance issues. This is done through a combination of one-to-one meetings, participation in investor roadshows or attendance at investor conferences.

The Investor Relations team has effective day-to-day responsibility for managing investor communications and always acts in close consultation with the Board. All members of the Board, including the Non-Executive Directors, receive a report on any significant discussions with shareholders and feedback that follows the annual and half-yearly presentations to investment analysts and institutional investors. All analyst reports concerning Capita are circulated to the Directors and the Board is kept informed of changes in the share register.

During the year, the Head of Investor Relations, Chief Executive Officer and Chief Financial Officer maintained active, targeted communications with existing and potential shareholders and the wider investment community. The Investor Relations team continued to support the Chairman, Sir Ian Powell, in further building his relationships with key institutional shareholders. Following the appointment of Jon Lewis in December, meetings were organised with major institutional shareholders, ensuring all had the opportunity to meet with him and discuss their areas of concern prior to the end of the financial year.

CORPORATE GOVERNANCE STATEMENT CONTINUED

2017 calendar of investor events

March	– 2016 year-end results released – UK investor roadshow
June	– Annual General Meeting and trading update
September	– IFRS 15 teach-in and restatement of 2016 full year results – 2017 half year results released – UK investor roadshow
November	– Numis Support Services Conference
December	– Pre-close trading update – Jon Lewis, CEO, introductory meetings with major shareholders

Shareholder meetings

All shareholders are encouraged to attend the Annual General Meeting (AGM) and information for shareholders is available on the Company's website www.capita.com. All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The Chairman is available to the significant shareholders of Capita. Directors, including Chairs of the various committees, are present at the AGM to answer any questions. The Board particularly encourages communication with and the participation of private investors at the AGM.

Shareholder communications

In addition to attendance at the AGM, shareholders can also access up-to-date information through the Group's website at www.capita.com. A telephone helpline, 0871 664 0300, provides a contact point directly to the Group's registrars, and private shareholders can also raise queries by email to enquiries@linkgroup.co.uk.

REMUNERATION COMMITTEE

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 75 to 89.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board monitors the Company's risk management and internal control systems and annually carries out a review of their effectiveness. This is reported within the Audit and Risk Committee report. The monitoring and review includes all material controls, including financial, operational and compliance controls. This process is regularly reviewed by the Board. The Group's key internal control procedures are fully documented within the strategic report on pages 36 to 43.

Furthermore, through the operation of the risk governance process, the Directors confirm (in accordance with provision C 2.1 of the Code) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. A description of those risks, together with how they are being managed or mitigated, is set out on pages 38 to 43.

OTHER STATUTORY AND REGULATORY INFORMATION

Strategic report

The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 December 2017 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found on pages 03 to 48. Details of the Group's business goals, strategy and model are on page 13.

Corporate governance report

The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure and Transparency Rules is set out on pages 49 to 89.

Election to apply FRS101 – Reduced Disclosure Framework

The parent company continues to apply UK GAAP in the preparation of its individual financial statements in accordance with FRS 101 and these are contained on pages 185 to 200. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections were received from shareholders.

Management report

For the purposes of Rule 4.1.5R(2) and Rule 4.1.8R of the Financial Conduct Authority's Disclosure and Transparency Rules, this Directors' report and the strategic report on pages 03 to 48 comprise the management report.

EVENTS AFTER THE BALANCE SHEET DATE

Chris Sellers resigned from the Board on 23 January 2018.

As announced to the market on 31 January 2018, payment of a dividend has been suspended until the Company is generating sustainable free cash flow and a Rights Issue is scheduled for 2018.

APPOINTMENT, RE-APPOINTMENT AND REMOVAL OF DIRECTORS

Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act 2006.

All Directors are subject to election at the first Annual General Meeting after their appointment and to re-election at intervals of no more than three years in accordance with the Code and the Company's Articles of Association. However, all Directors will retire and will offer themselves for re-election (Jon Lewis and Baroness Lucy Neville-Rolfe for election) at the Annual General Meeting in June 2018, in accordance with the UK Corporate Governance Code.

No person, other than a Director retiring at the meeting, shall be appointed or re-appointed a Director of the Company at any general meeting unless he/she is recommended by the Directors.

No person, other than a Director retiring at a general meeting as set out above, shall be appointed or re-appointed unless between 7 and 35 days' notice, executed by a member qualified to vote on the appointment or re-appointment, has been given to the Company of the intention to propose that person for appointment or re-appointment, together with notice executed by that person of his/her willingness to be appointed or re-appointed.

GROUP ACTIVITIES

Capita is the UK's leading provider of technology-enabled business process and customer management services and professional services. We generate the majority of our revenues from long-term contracts and partnerships across the private and public sectors. The Group's chosen markets are in the private sector – life, pensions and insurance, financial services, utilities and telecoms, retail, travel and transport, and other private sector, and in the public sector – central government, local government, education, health, justice and emergency services and defence.

Transforming business processes to drive down administration costs while also improving the end-user experience is the goal of the majority of what we do for our clients. We focus on delivering technology-enabled solutions, providing excellent customer service and operational delivery. We will combine our expertise with technology to make processes smarter, organisations more efficient and customer experiences better.

A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 03 to 48. The operational and financial performance of our divisions are detailed on pages 25 to 35.

RESULTS AND DIVIDENDS

The Group's reported loss before taxation amounted to £513.1m (2016 restated: £89.8m). As announced on 31 January 2018, the Directors do not recommend the payment of a final dividend (2016: 20.6p per share). The total dividend for the year was therefore 11.1p per share (2016: 31.7p per share).

The Employee Benefit Trust has waived its right to receive a dividend on the shares held within the Trust.

CONFLICTS POLICY

Under the Companies Act 2006, Directors are under an obligation to avoid situations in which their interests can or do conflict, or may possibly conflict, with those of the Company. In response to the conflicts of interest provisions, a comprehensive project was undertaken in 2008 to identify and disclose any conflicts of interest that have arisen or may arise across Capita. Procedures were implemented for evaluating and managing conflicts that have been identified in a way that ensures that decisions are not compromised by a conflicted Director. In addition, the Company's Articles of Association give the Board the power to authorise matters that give rise to actual or potential conflicts. The Board reports annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed. A policy for ongoing identification and disclosure of conflicts is in place and is kept under regular review.

The Board has authorised the conflict of Nick Greatorex being a trustee of the Capita Pension and Life Assurance Scheme and gave specific guidance on this conflict going forward. Nick Greatorex did not participate in the discussion or vote on the guidance given. No other conflicts of interest declared were material to the Board. All conflicts of interest are reviewed on an annual basis by the Board and are revisited as part of the year-end process by the Directors. None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings, other than their contracts of employment.

MAJOR SHAREHOLDERS

At 31 December 2017, the Company had received notifications that the following were interested in accordance with the Disclosure and Transparency Rules (DTRs):

Shareholder	Number of shares	% of voting rights as at 31 December 2017	Number of shares direct	Number of shares indirect
Veritas Asset Management LLP[1]	90,680,462	13.59	–	90,680,462
Invesco Asset Management	60,356,028	9.04	–	60,356,028
Woodford Investment Management LLP	51,567,196	7.73	51,567,196	–
BlackRock, Inc.	47,964,248	7.19	–	47,964,248
The Capital Group Companies, Inc.	45,382,384	6.80	–	45,382,384
Baillie Gifford & Co Limited	35,344,377	5.30	–	35,344,377
Capital Research Global Investors	29,488,695	4.42	–	29,488,695
Jupiter Asset Management	23,743,048	3.56	–	23,743,048
Schroder Investment Management	22,193,671	3.33	–	22,193,671
Veritas Funds PLC	22,127,050	3.32	–	22,127,050
Marathon Asset Management LLP	21,830,855	3.27	–	–
Vanguard Group	20,530,373	3.08	20,530,373	
T. Rowe Price	20,215,315	3.03	–	20,215,315

1 This includes the holding of Veritas Funds PLC.

As at 18 April 2018, the Company had received notifications that the following were interested in accordance with the DTRs:

Shareholder	Number of shares	% of voting rights as at 18 April 2018	Number of shares direct	Number of shares indirect
Veritas Asset Management LLP[1]	89,035,975	13.34	–	89,035,975
Woodford Investment Management LLP	66,758,754	10.00	66,758,754	–
Investec Asset Management Ltd	63,080,896	9.45	–	63,080,896
Invesco Ltd.	60,574,558	9.08	–	60,574,558
BlackRock, Inc.	44,104,108	6.61	–	44,104,108
Veritas Funds PLC	22,127,050	3.32	–	22,127,050
Marathon Asset Management LLP	21,694,771	3.25	–	21,694,771
Vanguard Group	20,654,592	3.09	20,654,592	–

1 This includes the holding of Veritas Funds PLC.

DIRECTORS' INTERESTS

Details of Directors' interests in the share capital of the Company are listed on page 86.

SHARE CAPITAL

As at 23 April 2018, 670,241,242 ordinary shares of 2 1/15p each have been issued and are fully paid up and are quoted on the London Stock Exchange. There are 2,886,388 shares held in treasury and the total number of voting shares is 667,354,854. During the year ended 31 December 2017, no new ordinary shares were issued – options exercised pursuant to the Company's share option schemes were satisfied by the transfer of shares from treasury (213,854 shares) or from the Employee Benefit Trust (69,377 shares). No shares have been allotted under the Company's share option schemes since the end of the financial year to the date of this report. Of the total issued share capital, 1,644,664 shares are held within the Employee Benefit Trust used for satisfying employee share options.

The share price at 31 December 2017 was 400.9p. The highest share price in the year was 721p and the lowest was 390.6p.

The Company renewed its authority to re-purchase up to 10% of its own issued share capital at the Annual General Meeting in June 2017. During the year, the Company did not purchase any shares (2016: nil).

VIABILITY STATEMENT

This statement is detailed in full on page 44.

In accordance with provision C.2.2 of the Code, the Directors have assessed the viability of the Group over the three-year period to 31 December 2020 taking into account the Group's current position, the anticipated net proceeds from the announced Rights Issue and the potential impact of the principal risks set out in the strategic report. Based on this assessment, the Directors have a reasonable expectation that the Group is and will continue to be viable.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 03 to 48. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 91 to 95. In addition, note 28 to the financial statements on pages 141–149 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

In determining the appropriate basis of preparation of the financial statements for the year 31 December 2017, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts and with consideration of the anticipated net proceeds from the announced Rights Issue which the Board is confident will be approved.

On 31 January 2018, the Group announced a multi-year transformation plan, encompassing strategy, cost competitiveness, sales, IT and its capital structure, to improve the performance of Capita over the medium-to-long term. This transformation plan includes an assessment of the appropriate financial leverage for the Group over the medium term, to ensure that Capita has a sustainable capital base to support its customers and operations, increase investment in the business and deliver future strategy. The Board's view is that the appropriate leverage for Capita over the medium term should be between 1.0 and 2.0 times adjusted net debt to adjusted EBITDA (prior to the adoption of IFRS 16). Accordingly, the Board has decided to raise additional equity of £701m by way of a Rights Issue, which is fully underwritten by Citigroup Global Markets Limited and Goldman Sachs International.

The transformation plan is being finalised, and the key actions and forecast impacts incorporated into detailed business plans. These are in support of the new strategy that has been reviewed and approved by the Board. Details of the new strategy are outlined in the Chief Executive Officer's review on pages 6 to 12.

For the purpose of the going concern assessment the Directors have considered a 'base-case' set of projections that cover the first two years of the new strategic plan, to 31 December 2019. This base-case includes cost reduction identified to date but not the anticipated proceeds from the Rights Issue and planned strategic disposals, and therefore importantly does not include the investment these will enable the Group to make, and the benefits these will deliver over the longer term.

The Group's committed facilities and private placement notes are subject to compliance with covenant requirements including maximum ratios of adjusted net debt to adjusted EBITDA. This covenant threshold is tested semi-annually, and is set at 3.0 times to 3.5 times depending on the debt instrument in question. The Directors have applied judgement in terms of how the ratio is calculated by applying the same treatment that has been applied in preparing and presenting the financial statements.

Accordingly, items that are presented as non-underlying are excluded from the covenant definition of adjusted EBITDA (with the exception of acquisition costs), as are restructuring costs that are now presented within the underlying results as set out in note 3 to the consolidated financial statements. This basis of calculation is consistent with the approach adopted in prior years.

In assessing the going concern assumption, the Board has undertaken a rigorous assessment of the forecast outturns and assessed identified downside risks and mitigating actions, by reference to the relevant covenant tests. The downside risks include a number of severe but plausible scenarios, incorporating underperformance against the business plan, unexpected cash outflows and customer attrition and unwillingness to award the Group new contracts and extensions to existing arrangements. The Board has considered mitigating actions available to the Group in response to these sensitivities.

Whilst the 'base case' scenario shows the business can operate in compliance with its adjusted net debt to adjusted EBITDA covenants applying the reasonable downside scenarios indicate that, absent the anticipated net proceeds from the announced Rights Issue, and assuming no other mitigating actions are taken by the Group, the available headroom is not sufficient to operate within the 3.0 times adjusted net debt to adjusted EBITDA covenant test. The Board has therefore considered the Rights Issue net proceeds in its assessment of going concern and the Group's ability to realise their assets and discharge their liabilities in the normal course of business.

Rights Issue

The Company has today launched a Rights Issue to raise £701m.

The Rights Issue will be subject to shareholders' approval and the general meeting to approve the equity raise is scheduled for 9 May 2018.

The Rights Issue is fully underwritten for £701m, by Citigroup Global Markets Limited and Goldman Sachs International.

Material uncertainties

In assessing the going concern assumptions, the Board has reviewed the base case plans, identified downsides and anticipated receipt of proceeds from the Rights Issue. Following this assessment, the Board has a reasonable expectation that the Company and the Group will be able to operate as a going concern for the foreseeable future.

In undertaking the assessment, the Board has considered the fact that a shareholder vote is required in order to raise additional capital through the Rights Issue, and that the underwriting agreement is subject to certain specific conditions which, although customary in nature, are outside the control of the Company. These events and conditions indicate a material uncertainty on the completion of the Rights Issue which may cast significant doubt about the Group's and parent company's ability to continue as a going concern.

The Board is confident that the Rights Issue will be approved and the proceeds received and based on this expectation believes that, even in a reasonable downside scenario, the Group and parent company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due. Accordingly, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

The auditors' report on pages 170–184 refer to this material uncertainty, and their opinion is not qualified or modified in this regard.

AUDITOR REVIEW

The Auditor has reviewed the statements regarding going concern (see page 60) and longer-term viability (see page 44) and those parts of the statement of compliance with the Code relating to: (i) Directors' and auditor's responsibilities; (ii) the 'fair, balanced and understandable' statement; (iii) confirmation of robust risk assessment and monitor and review of effectiveness of risk management and internal control systems; and (iv) Audit and Risk Committee composition, role and responsibilities. Further details are in the Auditor's report which includes reference to a material uncertainty in relation to going concern. The Auditor's report is not modified in this respect (see page 171).

DISABLED PERSONS

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons and to ensure that any reasonable adjustments are made to either the workplace or job content to accommodate a person's disabilities. Employees with a disability are eligible to participate in career development opportunities available to all employees and will be supported to do so. Opportunities also exist for employees of the Group who become disabled to continue in their employment with any reasonable adjustments being made or to be retrained for other positions in the Group.

EMPLOYEE DEVELOPMENT AND ENGAGEMENT

Capita has a real focus on supporting talent and development within the Company. Capita's approach to employee development ensures that individuals are offered continual challenges in their roles, supported through learning opportunities and personal development. The Company offers employees a comprehensive range of key business and management skills and personal development programmes through our internal training partners, as well as externally recognised universities and learning partners. At the same time our businesses provide business-specific training for all employees relevant to their role. In addition, Capita supports the achievement of professional qualifications including a range of National Vocational Qualifications and apprenticeships. This year also saw the launch of a dedicated talent hub which profiles all the career opportunities across the Company to our employees.

Employees receive corporate news through: frequent email notices; internal notice board statements; the employee intranet, Capita Connections, Yammer (internal social networking channel) and regular email updates on business performance from both Divisional Executive Officers and Executive Directors. Capita Connections enables employees to find out what is happening in the wider Group and to share information within and between business units and employees are encouraged to contribute news, views and feedback. Capita maintains a strong communications network and employees are encouraged, through its Open Door Policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Company. Employees are also encouraged to share their views through regular employee surveys and as outputs divisions develop action plans to address any improvements that are highlighted.

Capita has an established employee share purchase plan designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Company. In keeping with its belief that employees are the Company's most valuable asset, Capita operates employee recognition schemes both at Central and divisional level. The Capita Change Makers Awards, for example, celebrate the core values that embody the organisation and recognise employees for service excellence, teamwork, leadership, innovation and improvement, inter-divisional collaboration and charitable support and community engagement. We've also run an internal communications initiative that aligns with our external promotional campaign which encourages our people to see themselves as Change Makers, delivering positive, valuable change for our clients in many different forms across our businesses. We profile individuals from across the Company to showcase their success stories through our employee communications channels.

POLITICAL DONATIONS

The Group did not make any political donation or incur any political expenditure during the year (2016: £nil).

GREENHOUSE GAS EMISSIONS

A description of Capita's approach to greenhouse gas emissions is set out on page 48 of the strategic report but for the purpose of Section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 the following metrics and methodology are disclosed below:

	2017	2016	2015
Scope 1	**21,217**	18,137	16,664
Scope 2	**54,262**	65,094	68,367
Scope 3	**29,264**	34,317	35,125
Total gross tonnes of CO_2e	**104,743**	117,489	120,157
Total gross tonnes of CO_2e/£1m revenue	**25.23**	26.97	25.71
Total gross tonnes of CO_2e/headcount	**1.5**	1.6	1.6

Notes:

Restated 2016 emissions data to improve the accuracy of reporting using actual data to replace estimations.
Scope 1: Emissions from Capita sources that are controlled by us, including the combustion of fuel, company owned vehicles and the operation of our facilities.
Scope 2: Emissions from the consumption of purchased electricity, heat or steam.
Scope 3: Emissions from non-owned sources that are related to Capita's activities, including business travel.

Methodology

Our disclosures cover sources of our greenhouse gas emissions from our operations in UK, Ireland, Europe (Poland, Germany, Switzerland, Austria), India and South Africa. Capita converts the consumption data into a carbon footprint with consideration to the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI) Greenhouse Gas Protocol together with the latest emissions factors from the UK Department for Environment, Food and Rural Affairs (Defra) or, where available, the latest industry factors, e.g. hotel stays from Green Tourism Board Scheme.

FINANCIAL INSTRUMENTS

The Group's financial instruments primarily comprise bonds, bank loans, finance leases and overdrafts. The principal purpose of these is to raise funds for the Group's operations. In addition, various other financial instruments such as trade creditors and trade debtors arise directly from its operations. From time to time, the Group also enters into derivative transactions, primarily interest rate swaps, currency swaps and forward exchange contracts, the purpose of which is to manage interest risk and currency risk, arising from the Group's operations and its sources of finance.

The main financial risks, to which the Group has exposure, are interest rate risk, liquidity risk, credit risk and foreign currency risk.

The Group borrows in selected currencies at fixed and floating rates of interest and makes use of interest rate swaps and currency swaps to generate the desired interest profile and to manage its exposure to interest rate fluctuations.

In respect of liquidity risk, the Group aims to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, loan notes, finance leases and overdrafts, over a broad spread of maturities.

In respect of credit risk, the Group trades only with recognised, creditworthy third parties. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant.

With respect to credit risk arising from the other financial assets of the Group, such as cash, financial investments and derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties to ensure that they can fulfil their obligations.

The Group is not generally exposed to significant foreign currency risk, except in respect of its overseas operations in Europe, India and South Africa, which generates exposure to movements in the euro, Swiss franc, Indian rupee and South African rand exchange rates. The Group seeks to mitigate the effect of this exposure by entering forward currency instruments, including non-deliverable forward contracts, to fix the sterling cost of highly probable forecast transactions denominated in Indian rupee and South African rand. Exposures to the euro and Swiss franc are mitigated through the use of foreign exchange derivatives or borrowings in those currencies. Further details of the Group's financial instruments can be found in note 28 to the consolidated financial statements on pages 141 to 149.

QUALIFYING THIRD-PARTY INDEMNITY PROVISIONS FOR THE BENEFIT OF DIRECTORS

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contain a provision that enables the Company to indemnify the Directors of the Company in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Such provisions have been in force during the year and are in force at the date this report is approved. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2018 Annual General Meeting from 15 minutes before the meeting until it ends.

All Directors have deeds of indemnity. These will be available for inspection at the Annual General Meeting with the service contracts.

POWERS OF DIRECTORS

The business of the Company shall be managed by the Directors who are subject to the provisions of the Companies Act 2006, the Articles of Association of the Company and to any directions given by special resolution, including the Company's power to repurchase its own shares.

The Company's Articles of Association may only be amended by a special resolution of the Company's shareholders.

CHANGE OF CONTROL

All the Company's share schemes contain provisions in relation to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Capita has a number of borrowing facilities provided by various banks and other financial institutions. Capita's bank debt contains a change of control provision under which the banks may require immediate repayment in full on change of control. The bonds issued by Capita contain a change of control provision which requires the Group to offer to prepay the bonds in full if a change of control event occurs and Capita does not obtain an investment grade credit rating.

There are a number of significant client agreements which contain provisions relating to change of control, which in some cases could present a right of termination of the contract.

RIGHTS AND RESTRICTIONS ATTACHING TO SHARES

Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in the receipt of dividends pro rata to their holding. The Board may propose and pay an interim dividend and recommend a final dividend in respect of any accounting period out of the profits available for distribution under English law. A final dividend may be declared by the shareholders in general meeting by ordinary resolution, but no dividend may be declared in excess of the amount recommended by the Board.

At any general meeting a resolution put to vote at the meeting shall be decided on a poll. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are the holder.

No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

RESTRICTIONS ON TRANSFER OF SHARES

The Company's Articles of Association allow Directors to, in their absolute discretion, refuse to register the transfer of a share in certificated form unless the instrument of transfer is lodged, duly stamped, at the registered office of the Company, or at such other place as the Directors may appoint and (except in the case of a transfer by a recognised person where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. They may also refuse to register any such transfer where it is in favour of more than four transferees or in respect of more than one class of shares.

The Directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or is exempted from the requirement) under the Uncertificated Securities Regulations to register the transfer.

ANNUAL GENERAL MEETING

The 2018 Annual General Meeting (AGM) of the Company will be held at Linklakers LLP, One Silk Street, London EC2Y 8HQ on 26 June 2018. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which is sent to shareholders with the 2017 Annual Report and includes notes explaining the business to be transacted and is also available on the Company's website at www.capita.com.

In June 2017, shareholders granted authority for the Company to purchase up to 66,714,100 ordinary shares – this authority will expire at the conclusion of the 2018 AGM. No shares were purchased during 2017. A resolution to renew this authority will be put to shareholders at the 2018 Annual General Meeting.

The Directors consider that each of the resolutions are in the best interests of the Company and the shareholders as a whole and recommend that shareholders vote in favour of all of the resolutions.

For other general meetings the notice given would be 14 working (clear) days.

CROSS REFERENCES

For the purposes of LR 9.8.4R the following information is located as set out below:

Listing Rule	Subject	Page No.
9.8.4 (1)	Capitalisation of interest	103
9.8.4 (2) (4-11) and (14)	n/a	n/a
9.8.4 (12-13)	Shareholder waiver of dividends	59

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU.
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements.
- assess the Group and parent company's ability to continue as a going concern disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations.

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

Details of the principal risk categories can be found on pages 38–43.

APPROVAL OF THE ANNUAL ACCOUNTS

Responsibility statement of Directors in respect of the annual financial statements

We, the Directors of the Company, confirm that to the best of our knowledge:

- The financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole.
- The Directors' report, including content by reference, includes a fair review of the development and performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' statement on the Annual Report

The Directors consider the Annual Report, taken as whole, to be fair, balanced and understandable and that it provides the information necessary for the shareholders to assess the Company's position and performance, business model and strategy.

The Directors' report (pages 1 to 89) has been approved by the Board.

On behalf of the Board

Francesca Todd

Group Company Secretary
23 April 2018

Capita plc
Registered in England and Wales No. 2081330

COMMITTEES

COMMITTEES' TERMS OF REFERENCE

The terms of reference of the Nomination, Remuneration and Audit and Risk Committees (standing committees) were reviewed during the year. The terms of reference are summarised below and, along with the matters reserved for the Board, are displayed in full in the investor centre at www.capita.com/investors.

Terms of reference	Brief description of responsibilities
Nomination Committee	Reviews composition of the Board. Recommends appointment of new Directors. Considers succession plans for Chairman and Executive positions. Reviews and recommends Group diversity statement.
Audit and Risk Committee	Reviews accounting policies and contents of financial reports. Monitors internal control environment. Considers adequacy, effectiveness and scope of external and internal audit programme. Oversees relationship with our external Auditor. Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.
Remuneration Committee	Sets policy for Executive Directors' and senior executives' remuneration. Approves individual remuneration awards. Agrees changes to senior executive incentive plans.
Disclosure Committee	A Disclosure Committee, comprising any two of the Chairman, Senior Independent Director and the Executive Directors , is responsible for the appropriate identification and management of inside information, including any decision to delay public disclosure.

MEMBERSHIP OF THE COMMITTEES

Membership of the Company's standing committees at the end of the year is shown below:

	Sir Ian Powell	Gillian Sheldon	John Cresswell	Matthew Lester	Andrew Williams	Baroness Lucy Neville-Rolfe
Nomination	(C)x	x	x	x	x	x
Audit and Risk		x	x	(C)x	x	x
Remuneration		x	(C)x	x	x	x

(C) Chair.

Matthew Lester was appointed Chair of the Audit and Risk Committee with effect from 1 June 2017.

FREQUENCY OF COMMITTEE MEETINGS AND ATTENDANCE

During 2017, the Nomination Committee met six times, the Remuneration Committee met 10 times and the Audit and Risk Committee met 13 times. The increase in Committee meetings during 2017 was due to significant changes in Board composition that took place during the year and the need to consider certain accounting matters such as adoption of IFRS 15. Attendance of the Board Directors at Committee meetings is shown in the following table:

	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings	13	10	6
Sir Ian Powell*	n/a	n/a	6
Gillian Sheldon	13	10	6
Matthew Lester**	10	5	2
Andrew Williams	12	8	5
John Cresswell	13	10	6
Baroness Lucy Neville-Rolfe***			

* Sir Ian Powell is not a member of the Audit and Risk Committee and Remuneration Committee, but has been invited and attended all meetings.
** Matthew Lester was appointed to the Board on 1 March 2017.
*** Baroness Lucy Neville-Rolfe was appointed to the Board on 6 December 2017.

Due to the nature of the acquisition and bid strategy, consideration of meeting times has to include flexibility to hold meetings outside of this timetable and meetings of this nature tend to be held by telephone.

Any Director's absence from meetings of the Audit and Risk, Remuneration or Nomination Committees was previously agreed with the Chairman of the Board, the Chief Executive Officer or the Chair of the relevant committee.