

## Chairman's introduction

# It's been a significant year



**“Positive steps have been taken towards the creation of a truly diverse, responsible, sustainable and digitally-enabled organisation.”**

Sir Ian Powell, Chairman

**Every day, Capita affects the lives of millions of people, either directly or indirectly. It is a systemically important business, with an integral role as a services provider across many areas of the economy and society.**

Capita is in transition as, under new leadership, our people restructure and rebuild the business. A major turnaround, affecting every aspect of the business, is being undertaken. A corporate purpose has been defined for Capita for the first time. We are working towards our stated objectives of a return to organic growth and sustainable free cash flow.

As we've previously explained, there is a long way to go to complete the Capita transformation. The Board is very conscious that shareholders have been supportive and patient – and that the actions taken and progress made are, as yet, to be evidenced in terms of financial performance.

During 2018, trading conditions and the economic and political environment in which we operate remained uncertain. At the same time, the company has had to recognise and confront a number of challenges. However, much good work has been done and, despite the challenges, real progress made. We've drawn a line under the past, simplified and strengthened, and are regaining forward momentum. I believe we can now look forward positively to what a transformed and repositioned Capita can truly become.

## Progress and performance

It's been a significant year in the story of Capita, with positive steps taken towards the creation of a truly diverse, responsible, sustainable and digitally-enabled organisation.

We've made progress in a number of key areas. There is a clearly articulated strategy in place, underpinned by our newly defined purpose that 'we create better outcomes'. A rights issue, backed by healthy proceeds from a series of disposals, has helped address the debt side of the balance sheet and is already funding new investments. We have also agreed a pension deficit recovery plan, and a new operating model has been rolled out.

In terms of financial performance, Capita reported adjusted revenue of £3.9bn in 2018, a decline year-on-year, while adjusted profit before tax was slightly ahead of our expectations at £282.1m.

The Board fully supports the multi-year transformation plan and is monitoring its progress closely. We have again recommended that dividend payments will remain suspended until sufficient sustainable free cash flow is generated.

## Governance and diversity

Governance at Capita has been further overhauled in the past year; and not just at Board level, as the changes have gone much wider. The whole organisation is undergoing a fundamental transformation and, as part of that, how it is governed – from the divisions and functions to individual businesses and contracts – has been reviewed and redrawn. Everyone in Capita now has a personal responsibility to help it transform as a purpose-led business.

At an executive level, several more senior managers have arrived in post to provide the company with a first-class new leadership team capable of delivering profound, professional, disciplined change. It's work in progress, but the company-wide controls being put in place will lead to a more stable and efficient Capita; they will enable the business to provide services to the benefit of clients and deliver financial results in a much more effective and predictable way.

The directors and I will continue to review the constitution of the Board; we will ensure it matches the overall purpose of Capita and its new strategic direction. We want a Board with a global perspective and diversity, and we want this reflected throughout the company; that's why the appointment of two employee directors is so significant. We are determined that the perspective of employees is represented at Board level. I'm confident it will mark us out as a forward-looking organisation and help us attract, recruit and retain employees.

As I've insisted since I joined, diversity matters at Capita, and we have made progress, but not enough. In particular, the gender pay gap across the organisation remains disappointing but we are looking at the most effective ways of addressing the problem.

The need for increased diversity is becoming recognised much more as essential across Capita and will continue to be a major focus for me and the leadership team. We are a digitally-enabled company, and require a workforce that reflects those technologies. But innovation increases with diversity of thought, so we need people with different backgrounds, experiences and voices, all given the opportunity to succeed, if the company is to have a sustainable future.

We realise that social mobility and social responsibility are crucial to our business. At Capita, we are well placed to deliver programmes that support the communities we serve. We are involved in numerous schemes, with the specific aims of improving digital education and supporting social mobility, particularly through our graduate and apprenticeship schemes, and community volunteering programmes. It is increasingly clear that encouraging social mobility is not only the right thing to do but will help our business succeed. Being a responsible business also means being open and transparent in the way we manage our operations and deliver our services. We need to be more aware of the effect we have on the communities that we serve and our role in society.

## Culture and values

To really transform Capita, we have to achieve cultural and behavioural change – both internally and in all of our external interactions. All our people need to know how to make the right choices for the right reasons, take decisions in the right way and be guided by our new corporate approach, which is no longer based on short-term decisions in pursuit of near-term growth and in-year profitability.

That is why a clear set of values and behaviours has been put in place, underpinned by our purpose and supported and embedded through the new operating model. The purpose goes much further than being simply an over-arching corporate theme. Everything the company does in the years to come must relate back to this purpose in a real and practical way.

Our purpose must act as our guiding star; it's what we're working towards, but it also has to be shown in everything we do. It should challenge every person and every decision, including how and where we invest our money, to achieve better outcomes for each other, our shareholders and clients, and the communities we serve. Delivering on this purpose will enhance the long-term sustainability of the business.

## Looking forward

Capita is on the way to becoming a fully transformed business; and I would like to offer my sincere thanks to Jon Lewis, his leadership team and all of our people for working so hard, with such energy and commitment, through a time of significant change.

We must make sure we deliver consistently on our contracts and commitments, and follow through with our corporate purpose. There needs to be a relentless focus on earning the respect and trust of all our stakeholders, including our fellow shareholders, to whom we remain grateful and who have been very supportive throughout the many changes and challenges of the past year.

