CORPORATE GOVERNANCE

Chairman's report

"Our plan to appoint two employees to the Board is further evidence of our commitment to inclusivity and engagement."

Sir Ian Powell
Chairman

I am pleased to present this report on the work of the Board during 2018, formed of this section (pages 54–63) and the section headed 'Other statutory and regulatory information' (pages 63–68).

Results for 2018

In the Chief Executive Officer's review on pages 8–13 we have detailed the results for the year. It has been a significant year for Capita and the Board and we remain confident that the transformation programme we are pursuing will deliver the right outcomes.

Board activities in 2018

The Board has a standing schedule to meet nine times a year but holds further meetings as required, operating with an open culture. In 2018, the Board has had to deal with many key matters, as it seeks to set the Group on a sustainable path for the future and address historical issues.

A structured approach is taken when setting Board and Committee meetings – they are aligned with the Company's financial calendar. We set an agenda to cover the wide range of matters that are brought to our attention, ensuring each is given appropriate time and focus.

Governance has a key role to play in the culture of the organisation and I believe the Board and senior management changes we have made in 2018 will drive improved governance and performance across the whole of the business. Patrick Butcher was appointed as Chief Financial Officer at the end of 2018 and details of the new Executive Committee are set out below.

Senior management

Capita currently comprises six divisions and we continue to review the structure of our businesses and management to ensure it is appropriate. An Executive Committee, under Jon Lewis's leadership, was formed during the year. This committee brings together the six leaders of the new divisional structure and a number of new functional roles, including chief officers for Corporate Development, Digital, Growth, People, and Transformation, a Chief General Counsel and Director of Corporate Affairs. These new roles include several new hires to Capita. The committee's focus is on improving culture and engagement across the workforce, with the aim of harnessing the collective strength of Capita's talented pool of people across all levels of the organisation. The Board believes that the management team as a whole now have the credibility, knowledge, values and behaviours required to drive Capita's business forward and achieve success across its chosen markets. Further detail about the Executive Committee can be found on pages 58–59.

Engagement and diversity

Our plan to appoint two employees to the Board is further evidence of our commitment to inclusivity and engagement. We received a large number of applications and are following a rigorous selection process, which includes external independent review. The intention is for the successful candidates to be announced shortly and I look forward to welcoming them onto the Board in due course.

Over the last two years, we have brought focus to the diversity agenda at Capita and have made some progress, but not enough. We are fully committed to improving diversity and details of how this is being addressed are included in the strategic report on page 37–38.

As an organisation of more than 63,000 people and one of the UK's largest employers, Capita must recruit, retain, develop and reward its people well, if it is to achieve its goals. Its purpose, culture, values and behaviours have to empower and encourage all of Capita's people to ensure everyone has the opportunity to fulfil their potential, irrespective of background.

Board effectiveness

Corporate governance principles

We continue to pursue the highest standards of corporate governance and business practice, including the principles embodied in the UK Corporate Governance Code 2016 (2016 Code), which permeate all aspects of the Board's activity.

In particular, the principles in the 2016 Code relating to leadership and effectiveness are addressed through a strong and experienced group of independent Non-Executive Directors together with the ongoing division of responsibility between running the Board and running Capita's business. Furthermore, the Board's effectiveness was subject to an external evaluation in 2018, details of which are set out below.

The 2016 Code principles relating to accountability and remuneration are addressed through the work of the Audit and Risk Committee and Remuneration Committee respectively and those committee reports are set out on pages 71–79 and 80–98. The principles in the 2016 Code regarding relations with shareholders are addressed through the ongoing programme of shareholder engagement activity, a summary of which can be found on pages 62–63.

In July 2018, the Financial Reporting Council (FRC) refreshed and updated the 2016 Code and published the UK Corporate Governance Code 2018 (2018 Code) which will apply to Capita in respect of the 2019 financial year. Where appropriate, disclosures relating to the 2018 Code are included in this Annual Report and Accounts 2018.

Board evaluation

Board evaluation is undertaken annually, with external evaluation every three years. In late 2018, an external evaluation of the Board and its committees was undertaken by Independent Board Evaluation, who have no other relationship with Capita. This comprised a series of interviews with Board members and key stakeholders who regularly interact with the Board, including Executive Committee members and senior management, auditors, brokers, external legal counsel and the Group Company Secretary. The findings of the review were presented to the Board. Reports on committees were presented to the committee chairmen and circulated to the Board.

The review took place against a backdrop of considerable change, both in terms of Board composition and activity. During 2018, new appointments strengthened the Board and Executive Committee, including the appointment of Patrick Butcher as Chief Financial Officer and Claire Chapman as Chief General Counsel. As part of developing a new strategy for Capita, the Board led the delivery of a rights issue in April 2018. The review also included a report on the performance of individual directors and of the Chairman.

The evaluation concluded that, overall, the Board had performed well through the period, demonstrating good leadership, an ability to support and challenge, with a high level of engagement and commitment.

The evaluation has given the Board an opportunity to review its practices, and set a base-line standard from which to progress and measure going forward.

A separate meeting of the Board took place to discuss fully the evaluation and its findings, focusing on the following themes and developing actions for 2019:

- Longer-term vision and strategy – extending the time-frame of strategic discussion and emerging risks during the year, with an annual deep focus on strategy and risk appetite.
- Improve the Board's understanding of employees' views – through the appointment of Employee Directors, site visits and working with the Chief People Officer on top talent, succession planning and diversity.
- Succession planning – a skills and capabilities matrix would be developed by the Nomination Committee to help enhance Board succession planning.
- Board programme – to ensure the Board programme and agendas facilitate appropriate exposure to Capita's business and senior management.

Risk & Compliance and Internal Audit

On pages 44–51 of the strategic report we have described the roles of Group Risk & Compliance and Group Internal Audit together with the risk framework and internal controls for Capita.

In order for the Board to ensure that the strategic direction of Capita is appropriate and has the appropriate risk oversight, numerous meetings are held throughout the year. These include individual meetings between the Chief Risk & Compliance Officer and the Group Internal Audit Director with the Chairman of the Audit and Risk Committee, as well as normal scheduled meetings. Risks are identified and categorised in a number of ways and are prioritised and delegated in accordance with the risk ratings provided to the risk owner.

Both the Chief Risk & Compliance Officer and the Group Internal Audit Director report to the Chief Financial Officer and independently to the Audit and Risk Committee. Both report respectively on the internal audit programme and risk and compliance management activities and on the internal audit programme across Capita. They have access to all members of the Board and hold regular meetings with the Executive Directors and meet with the Audit and Risk Committee Chairman at least every quarter.

Directors

The Directors of the Company currently in office are listed on pages 56–57.

All members of the Board will stand for re-election (Patrick Butcher for election) at the forthcoming AGM. All Board members have received a formal performance evaluation, as described, which demonstrates that each Director continues to be effective and committed to the role.

John Cresswell has informed the Board of his intention to step down as Chairman of the Remuneration Committee, but he will remain on the Board as a Non-Executive Director. John took up a new CEO role in 2018 and feels he can no longer provide Capita with the time and attention the Committee Chairman's role requires. He will continue to chair the Committee until a replacement is appointed.

The following pages in this section consist of our corporate governance and remuneration reports. I hope that you will find these and the entire Annual Report and Accounts informative. The Board will be happy to receive any feedback you may have.

Sir Ian Powell
Chairman
13 March 2019

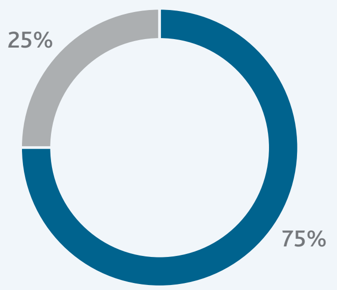
Board members

At 31 December 2018, the Board comprised seven Directors, made up of the Chairman, Chief Executive Officer and five independent Non-Executive Directors.

We have an experienced team in place to support our strategy and to meet the opportunities and challenges that the Group faces. As the Group develops, we will regularly review the Board composition to ensure it meets the needs of the business.

At 31 December 2018, we had two female Directors and five male Directors. By the end of January 2019, we had two female and six male Directors, following the appointment of Patrick Butcher as Chief Financial Officer. It is expected that diversity at both Board and senior leadership level will continue to be a focus of the Board.

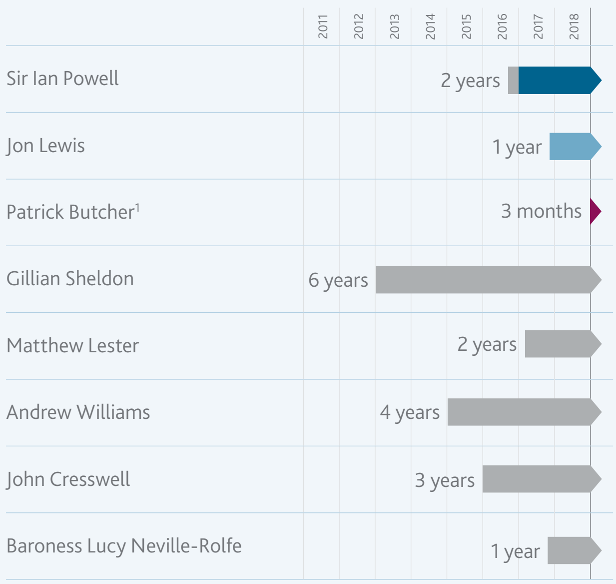
Board diversity



Male
Female

Gender split at 1 January 2019

Board Directors: length of tenure



1 Joined the Board on 1 January 2019

Key

Chairman CEO CFO
Non-Executive Director

Chairman

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. This includes setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman should also promote a culture of openness and debate, by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information, and should ensure there is effective communication with shareholders.

Sir Ian Powell | N

Chairman

Appointed to Board: September 2016

Independent at appointment: Yes

Key skills and experience: Sir Ian was appointed Non-Executive Director in September 2016 and Chairman in January 2017. He is a chartered accountant and, before retiring in June 2016, was Chairman and Senior Partner of PwC UK for eight years, responsible for leadership and management of PwC UK. He joined PwC in 1977, serving in various roles of increasing responsibility, including Head of Advisory, before being elected Chairman and Senior Partner.

Other current appointments: Chairman of Police Now; trustee of The Old Vic, and of Wellbeing of Women; member of the Development Committee at The National Gallery; board member at London First.

Executive Directors

The Executive Directors are responsible for the day-to-day running of all aspects of the Group's business. This responsibility is different from the Chairman's role in running the Board. The role of Chief Executive Officer is separate from that of Chairman to ensure that no one individual has unfettered powers of decision-making.

Jon Lewis

Chief Executive Officer

Appointed: December 2017

Key skills and experience: Before joining Capita, Jon was Chief Executive Officer of Amec Foster Wheeler, the multinational consultancy, engineering and project management business. Prior to that, he had a 20-year career at Halliburton Company Inc in the United States, one of the world's largest oil field service companies, where he held a number of senior roles, including Senior Vice-President and member of the Halliburton Executive Committee. Jon has a doctorate in geology from the University of Reading, ran a contract research organisation at Heriot-Watt University, and attended the Executive Program at Stanford University Graduate School of Business.

Board responsibilities: Managing and developing Capita's business to achieve the Company's strategic objectives.

External appointments: Board member of Equinor

Patrick Butcher

Chief Financial Officer

Appointed: January 2019

Key skills and experience: Before joining Capita, Patrick was Group Chief Financial Officer at Go-Ahead Group. He is a member of the Institute of Chartered Accountants (South Africa) and has more than 17 years' experience as a finance director at board level in transport and infrastructure companies. He was formerly Group Finance Director of Network Rail, as well as holding finance director roles at English, Welsh and Scottish Railways (now DB Schenker), and London Underground. Patrick has extensive experience from working as a management consultant and auditor for Deloitte LLP. He is a former member of the British Transport Police Authority.

Board responsibilities: Overall control and responsibility for all financial aspects of the business's strategy.

Additional responsibilities: Property; Procurement; Commercial relationships and Supplier relationships.

External appointments: None.

Non-Executive Directors

The Non-Executive Directors should constructively challenge and help develop proposals on strategy. They should scrutinise the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of Executive Directors and have a prime role in appointing and, where necessary, removing Executive Directors, and in succession planning.

Gillian Sheldon | ANR

Senior Independent Director

Appointed: September 2012

Independent: Yes

Key skills and experience: Gillian was appointed to the Board in September 2012, before being made Senior Independent Director in January 2013. She is a senior adviser in Credit Suisse UK's investment banking division where she has gained substantial experience of advising boards across a wide range of complex situations and transactions. Prior to joining Credit Suisse, Gillian worked for seven years at NM Rothschild & Sons.

Other current appointments: Senior adviser at Credit Suisse; trustee of BBC Children in Need; member of Corporate Advisory Board of the Royal Academy of Arts.

Matthew Lester | ANR

Non-Executive Director

Appointed: March 2017

Independent: Yes

Key skills and experience: Matthew is a chartered accountant with over 20 years' experience in senior finance roles. He was Group Chief Financial Officer of Royal Mail plc from November 2010 to July 2017. Matthew has also served as Group Chief Financial Officer for ICAP plc from May 2006 to November 2010. Before this, he held senior roles at Diageo plc and Kleinwort Benson.

Other current appointments: Non-executive director of Man Group plc and Barclays plc.

John Cresswell | ANR

Non-Executive Director

Appointed: November 2015

Independent: Yes

Key skills and experience: John is Chief Executive Officer of Bibby Line Group Limited. He has substantial experience leading, growing and advising media and broadcast organisations at CEO and executive director levels, having worked in the technology, media and telecommunications sector for 25 years. John is a chartered accountant and attended the Advanced Management Program at Harvard Business School. Most recently, he served for four-and-a-half years as CEO of Arqiva. Before that, he held a number of executive director roles on the board of ITV plc, and was formerly a director of Liverpool Football and Athletic Grounds plc and of Ambassador Theatre Group.

Other current appointments: Chief Executive Officer of Bibby Line Group Limited.

Andrew Williams | ANR

Non-Executive Director

Appointed: January 2015

Independent: Yes

Key skills and experience: Andrew has been Chief Executive of Halma plc, a leading specialist in safety, health and environmental technologies since 2005. He started his career at Halma in 1994 as manufacturing director of a subsidiary company and went on to hold a wide range of senior management positions across the group. Andrew is a chartered engineer and a production engineering graduate of Birmingham University. He attended the Advanced Management Program at Wharton Business School, University of Pennsylvania, in 2004.

Other current appointments: Chief Executive of Halma plc.

Baroness Neville-Rolfe DBE CMG | ANR

Non-Executive Director

Appointed: December 2017

Independent: Yes

Key skills and experience: Baroness (Lucy) Neville-Rolfe has been a member of the House of Lords since 2013, and served between 2014 and 2017 as a Government minister in the Business and Culture departments, and as Commercial Secretary to the Treasury. She has a senior background in international retail, governance, legal and regulatory issues, and communications. She worked at Tesco plc from 1997 to 2013, serving on the board from 2006. Before joining Tesco, Lucy was a civil servant, serving in the Prime Minister's Policy Unit at Number 10 between 1992 and 1994, and finally as Director of the Deregulation Unit. Her non-executive directorships have included ITV plc and Metro AG.

Other current appointments: Chairman of Assured Food Standards; non-executive director of Secure Trust Bank plc, Thomson Reuters Founders Share Company, and Health Data Research UK; and governor of London Business School.

Key to committees

A Audit and Risk   N Nomination   R Remuneration   ANR Committee chair

Changes in the year

Nick Greatorex

Chief Financial Officer

Appointed to Board: March 2015

Stepped down from Board: September 2018

Chris Sellers

Group Business Development Director

Appointed to Board: January 2017

Stepped down from Board: January 2018

Executive Committee

Capita's Executive Committee is chaired by Jon Lewis, the Company's Chief Executive Officer, and comprises 15 executive officers and functional heads, who are entirely accountable for their particular division or function.

The divisions are aligned around our key growth markets: Software, People Solutions, Customer Management, Government Services and IT & Networks. Alongside them sits our sixth division, Specialist Services. All are aligned with Capita's overall strategy – to simplify, strengthen and succeed.

1. Patrick Butcher

Chief Financial Officer

Patrick, who joined Capita at the start of 2019, is responsible for developing and implementing financial strategy and policy to support the sustainable growth of the business in a stable and predictable way.

2. Garry Dryburgh

Chief Transformation Officer

Garry is responsible for developing, orchestrating and communicating our multi-year transformation programme.

3. Jim Vincent

Executive Officer, Specialist Services

Jim leads the division which comprises a portfolio of unique businesses and commercial ventures, providing a diverse range of services to private and public sector clients.

4. Ismail Amla

Chief Growth Officer

Ismail is responsible for supporting our transformation and organic growth plans, including the simplification of business development and marketing, and driving change in the sales model.

5. Chris Baker

Executive Officer, Software

Chris leads this division which comprises a group of diverse businesses, creating digital and software solutions to make our clients' businesses more efficient and cost-effective.

6. Mike Barnard

Executive Officer, Customer Management

Mike leads the division which provides market-leading contact centre, data, analytics and digital services. He is also responsible for support operations across multiple sectors.

7. Katja Hall

Director of Corporate Affairs

Katja is responsible for both internal and external communications, including employee engagement, reputation strategy, media relations, and public affairs and policy.

8. Rupert Green

Chief Corporate Development Officer

Rupert is responsible for our strategy development and execution, investor relations, and for mergers, acquisitions and divestments.

9. Serge Taborin

Chief Digital Officer

Serge is responsible for developing our technology offering, driving innovation and identifying how digital technologies will shape future customer propositions and business models.

10. Jon Lewis

Chief Executive Officer

Jon is responsible for the overall management and development of Capita, to achieve the Company's strategic objectives – and return the business to organic growth and sustainable free cash flow in 2020.

11. Erika Bannerman

Executive Officer, People Solutions

Erika leads the division and has responsibility for a portfolio of market-leading HR businesses across resourcing, learning services, pensions administration and employee benefits.

12. Will Serle

Chief People Officer

Will is responsible for the delivery of the HR and people strategy, supporting and advising the organisation to evolve Capita's culture and ways of working for all our employees.

13. Joe Hemming

Executive Officer, IT & Networks

Joe leads the division which provides market-leading IT outsourcing and network solutions to key clients, including within central and local government, and in the education and healthcare sectors.

14. Claire Chapman

Chief General Counsel

Claire is responsible for providing expert and strategic legal advice to the leadership team and the Board, with a focus on legal and regulatory risk management, M&A, corporate projects, governance and contracts.

15. Patrick Elliott

Interim Executive Officer, Government Services

Patrick leads the division which delivers technology-enabled business services for a broad spectrum of central government, local authority, healthcare and other public sector clients.

Corporate governance statement

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. 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. The UK Corporate Governance Code 2018 (the 2018 Code) was published in July 2018 and applies to accounting periods beginning on or after 1 January 2019. Where appropriate, additional voluntary disclosures have been made in compliance with the 2018 Code. Copies of the Code and the 2018 Code are available from the Financial Reporting Council's website www.frc.org.uk.

Board changes during the year

The following changes to the composition of the Board took place during the year:

Name	Date	Position
Chris Sellers	23 January 2018	Stepped down as Group Business Development Director
Nick Greatorex	30 September 2018	Stepped down as Chief Financial Officer

Further information on changes to the Board is set out in the Nomination Committee report on page 70. Patrick Butcher, Chief Financial Officer, was appointed as a Director on 1 January 2019.

Board composition

The composition of the Board at 31 December 2018 and from 1 January 2019 is shown below:

	Executive Directors	Independent Non-Executive Directors
At 31 December 2018	Jon Lewis	Sir Ian Powell[1]
		Gillian Sheldon
		Matthew Lester
		John Cresswell
		Andrew Williams
		Baroness Lucy Neville-Rolfe
At 1 January 2019	Jon Lewis	Sir Ian Powell[1]
	Patrick Butcher	Gillian Sheldon
		Matthew Lester
		John Cresswell
		Andrew Williams
		Baroness Lucy Neville-Rolfe

1 Independent on appointment in accordance with the 2016 Code.

Board meetings and attendance

During 2018, the Board held nine scheduled meetings, excluding ad hoc meetings. Attendance of the Directors is shown below; the maximum number of meetings a Director could attend is in brackets.

	Board meetings
Sir Ian Powell	9(9)
Jon Lewis	9(9)
Gillian Sheldon	9(9)
Matthew Lester	9(9)
John Cresswell	8(9)
Andrew Williams	9(9)
Baroness Lucy Neville-Rolfe	9(9)
Nick Greatorex[1]	6(7)
Chris Sellers[2]	0

1 Nick Greatorex stepped down from the Board on 30 September 2018.
2 Chris Sellers stepped down from the Board on 23 January 2018.

Additional ad hoc meetings were held in the first half of 2018 in connection with the rights issue and various related matters. Meetings held outside 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 2018, 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

There is a clear division of responsibility between the running of the Board by Sir Ian Powell as Chairman and responsibility for the running of the Group's business by Jon Lewis as CEO.

During the year, Sir Ian as Chairman and Gillian Sheldon as Senior Independent Director held meetings comprising solely the Non-Executive Directors. Gillian also met with the Non-Executive Directors without Sir Ian. Both Sir Ian and Gillian are available to meet with significant shareholders when requested.

Governance and strategy

The Group recognises the contribution made by good governance to the Company's success and changes made at both Board and Executive Committee level demonstrate the importance of embedding the right structures with the right people to deliver the Group's strategy.

Role of the Board

The Board

Role of the Board

To promote Capita's long-term sustainable success, generating value for shareholders and contributing to wider society.

Matters reserved for the Board

- Strategy and management
- Structure and capital
- Financial reporting
- Internal controls
- Major contracts
- Shareholder communication
- Board membership

Nomination Committee

- Board and committee composition
- Succession planning
- Diversity
- People strategy

Read more on page 70.

Audit and Risk Committee

- External audit
- Financial reporting
- Risk management and internal controls
- Internal audit

Read more on pages 71 to 79.

Remuneration Committee

- Remuneration policy
- Remuneration principles
- Incentive design and setting of targets
- Executive and senior management remuneration

Read more on pages 80 to 98.

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

Section 172 of 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 (among 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.

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.

Stakeholder interests and the matters listed above are factored into all Board discussions and decisions.

Corporate governance statement continued

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 that, 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 at Board meetings.

Matters reserved for the Board

A formal schedule of matters reserved for 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, preliminary announcement for the final results and dividend, treasury and accounting policies.
- Internal controls, ensuring that the Group manages risk effectively by approving its risk appetite and monitoring aggregate risk exposures.
- 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.
- Board membership and other appointments, including changes to the structure, size and composition of the Board, and succession planning for the Board and senior management.

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, including some or all of the following:

- The nature of the Group, its business, markets and relationships.
- Meetings with the external auditor, lawyers, brokers and relevant operational and functional senior management.
- Board procedures, including meeting protocols, committee activities and terms of reference, and matters reserved for the Board.
- Overviews of the business via Monthly Performance Review (MPR) reports.
- The Group approach to risk 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 chairmen 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 of the Board, the chairmen of the Audit and Risk, and Remuneration committees, and briefs them on areas of governance and committee requirements.

During the year, a new role of Chief General Counsel was created to oversee the Group's legal and regulatory capability, as a separate function from the role of Group Company Secretary. The two roles collaborate closely but, in order to avoid a conflict of interest, the Group Company Secretary is solely responsible for Board and Group governance.

Shareholder engagement

There is an active engagement programme with the Company's investors. The Executive Directors meet regularly with institutional investors to discuss and obtain feedback on the business, performance, strategy and corporate governance, and address any issues of concern. This is undertaken through a combination of roadshows, group or one-to-one meetings and attendance at Support Services conferences. The Chairman and Non-Executive Directors are also available to meet with existing institutional shareholders throughout the year.

The Investor Relations team has 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 anonymous 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.

Following the rights issue in April 2018, the Chief Executive Officer, Chief Financial Officer, Head of Investor Relations and Chief Corporate Development Officer engaged extensively with existing and potential institutional investors, ensuring all investors fully understood the new strategy, the transformation programme and the planned use of the rights issue proceeds.

In July 2018, the Chairman of the Remuneration Committee consulted with Capita's top 30 investors on proposed targets and measures for the 2018 long-term incentive plan. Further details are set out in the Directors' remuneration report.

In September 2018, the Chairman, Chairman of the Remuneration Committee and Senior Independent Director held a governance forum attended by the Company's top 30 investors. This enabled Capita's largest shareholders to engage directly with Non-Executive Directors on the Company's strategy, transformation programme, employee Board directors and wider corporate governance issues.

2018 calendar of investor events

January	Trading update
April	Rights issue 2017 full-year results UK and US investor roadshows
June	Annual general meeting
August	2018 half-year results UK investor roadshow
September	US investor roadshow Governance forum
November	JP Morgan 'Best of British' investor conference

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. 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 chairmen 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. Lines are open between 9.00am and 5.30pm, Monday to Friday, excluding public holidays in England and Wales. 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 80–98.

Risk management and internal control

The Board monitors the Company's risk management and internal control systems and carries out an annual review of their effectiveness. The Audit and Risk Committee report contains further details. 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 44–45.

Furthermore, through the operation of the risk governance process, the Directors confirm, for the purposes of 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 46–51.

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 2018 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 1–52. Details of the Group's business goals, strategy and model are on page 4.

Corporate governance report

The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs) is set out on pages 60–67.

Management report

For the purposes of Rule 4.1.5R(2) and Rule 4.1.8R of the DTRs, this Directors' report and the strategic report on pages 1–52 comprise the management report.

Post-balance sheet events

There have been no material events since the balance sheet date.

Election to apply FRS 101 – 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 178–195. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections have been received from shareholders.

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 AGM after their appointment and, in accordance with Provision 18 of the 2018 Code, to annual re-election thereafter. A resolution to re-elect each Director will therefore be proposed at the AGM on 14 May 2019.

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 seven 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 one of the UK's leading providers of digitally-enabled business services and software, with a growing international operation and sales focus. We seek to solve the complex challenges of clients, enhancing the use of technology and data, increasing productivity, and improving customer and public services. Our portfolio, delivered from six divisions, comprises specialist functions of sector-specific software, digitally-enabled business process management, IT and networks services, customer services, HR, and specialist business support services. We aim to create better outcomes for all our stakeholders, and add value to the economies and communities we serve.

A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1–52. The operational and financial performance of our divisions are detailed on pages 21–33.

Results and dividends

The Group's reported profit before tax amounted to £272.6m (2017 loss: £513.1m). As previously announced, the Directors do not recommend the payment of a final dividend (2017: nil). The total dividend for the year was nil (2017: 11.1p per share). The employee benefit trust, which holds shares for the purpose of satisfying employee share scheme awards, has waived its right to receive future dividends on shares held within the trust.

Corporate governance statement continued

Conflicts of interest

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. A policy and procedures are in place for identifying, disclosing, evaluating and managing conflicts so that Board decisions are not compromised by a conflicted Director. The Company's Articles of Association give the Board power to authorise matters that give rise to actual or potential conflicts. Procedures are reviewed annually to ensure they are operating effectively.

No other material conflicts of interest have been declared. All conflicts of interest are reviewed annually by the Board and included in year-end attestations by the Directors. None of the Directors of the Company has a material interest in any contract with the Company or its subsidiary undertakings, other than their contracts of employment.

Prior to his resignation, the Board had authorised Nick Greatorex's conflict as 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.

Major shareholders

At 31 December 2018, the Company had received notifications in accordance with the Disclosure Guidance and Transparency Rules (DTRs) that the following were interested in the Company's shares:

Shareholder	Number of shares	% of voting rights at 31 December 2018	Number of shares direct	Number of shares indirect
Veritas Asset Management LLP[1]	199,998,295	11.99	—	199,998,295
Invesco Ltd	186,602,551	11.18	—	186,602,551
Investec Asset Management Ltd	149,745,521	8.98	—	149,745,521
RWC Asset Management LLP	124,238,394	7.45	—	124,238,394
Schroder Investment Management	104,619,507	6.27	—	104,619,507
Woodford Investment Management LLP	93,362,659	5.60	93,362,659	—
Coltrane Asset Management, L.P	82,388,589	4.94	5,140,000	77,248,589
BlackRock, Inc.	73,282,516	4.39	—	73,282,516
Marathon Asset Management LLP	66,623,803	3.99	—	66,623,803
Veritas Funds PLC	55,077,146	3.30	—	55,077,146
Vanguard Group	53,669,912	3.22	53,669,912	—
Jupiter Asset Management	53,335,560	3.20	—	53,335,560

1 This includes the holding of Veritas Funds PLC.

At 5 March 2019, the Company had received notifications in accordance with the DTRs that the following were interested in the Company's shares:

Shareholder	Number of shares	% of voting rights at 5 March 2019	Number of shares direct	Number of shares indirect
Veritas Asset Management LLP[1]	192,533,863	11.54		192,533,863
Invesco Ltd	191,409,106	11.47		191,409,106
Investec Asset Management Ltd	153,805,729	9.22		153,805,729
RWC Asset Management LLP	127,012,876	7.61	127,012,876	
Schroder Investment Management	101,030,829	6.06		101,030,829
Woodford Investment Management LLP	93,562,659	5.60	93,562,659	
Coltrane Asset Management, L.P	82,388,589	4.94	5,140,000	77,248,589
BlackRock, Inc.	74,230,358	4.45		74,230,358
Marathon Asset Management LLP	64,756,810	3.88		64,756,810
Veritas Funds PLC	55,009,900	3.30		55,009,900
Vanguard Group	54,711,874	3.28	54,711,874	
Norges Bank Investment Management	54,273,873	3.25	54,273,873	
Jupiter Asset Management	53,573,060	3.21		53,573,060

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 95.

Rights issue

During the year the Company undertook a three for two rights issue at 70p per new share to raise £701m which was fully underwritten by Citigroup Global Markets Limited and Goldman Sachs International. The majority of shareholders (approximately 97.25%) took up their rights and subscribers were procured for the remaining 2.75%.

Share capital

At 7 March 2019, 1,671,273,523 ordinary shares of 2 1/15p each were in issue, fully paid up and quoted on the London Stock Exchange. There are 2,858,331 shares held in treasury (representing 0.17% of total issued share capital) and the total number of voting shares is 1,668,415,192. During the year ended 31 December 2018, 1,001,032,281 new ordinary shares were issued in connection with the rights issue; options exercised pursuant to the Company's share schemes were satisfied by the transfer of shares from treasury (28,057 shares) and from the Employee Benefit Trust (32,367 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, 12,030,742 shares (representing 0.72%) are held within the Employee Benefit Trust used for satisfying employee share options.

The share price at 31 December 2018 was 112.25p. The highest share price in the year was 428.6p and the lowest was 100.7p. The highest share price in the year does not reflect the dilutive impact of the issue of new ordinary shares in Capita's 3 for 2 rights issue, which would result in an adjusted high share price of 261.36p.

The Company renewed its authority to re-purchase up to 10% of its own issued share capital at the Annual General Meeting in June 2018. During the year, the Company did not purchase any shares (2017: nil).

Viability statement

This statement is detailed in full on page 52.

The Directors have assessed the viability of the Group over the three-year period to 31 December 2021, taking into account the Group's current position 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 1–52. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 100–104. In addition, note 26 to the financial statements on pages 144–152 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 ending 31 December 2018, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

Having taken decisive action to strengthen the balance sheet through the raising of new equity and the disposal of non-core businesses, and undertaking a rigorous assessment of the financial forecast, the Board have concluded that the Group will continue to have adequate financial resources to realise their assets and discharge its liabilities as they fall due.

Accordingly, the Directors have formed the judgement that it is appropriate to prepare these consolidated financial statements on the going concern basis.

Auditor review

The auditor has reviewed the statements regarding going concern (see page 65) and longer-term viability (see page 52) 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 (pages 166–177).

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.

Corporate governance statement continued

Employee development and engagement

In the second half of 2018, Capita launched a plan for the people function which focuses on all 63,000 people within the Group and covers various topics, including development and engagement. This represents a new commitment and a new way of managing our people. A key focus in employee engagement has been on helping our employees understand Capita's purpose and how their role contributes to the overall success of the organisation. Further details about Capita's new purpose, which was launched in January 2019, are on pages 1 and 9. In addition, we worked with over 1,000 employees, at all levels and in various locations worldwide, to bring our values to life, identifying five behaviours for each of the four values that help our employees understand what is expected of them and what they can expect of others. Finally, we launched a series of eight manager commitments which identify key expectations for all our managers, describing our expectations of how they should manage their teams. All of this was launched using a variety of channels, including Yammer, the internal social networking channel, and 'town hall' meetings, which gave an opportunity to listen to our people.

Employee surveys were conducted in 2017 and 2018 allowing us to monitor changes in how our people feel about working for Capita and providing the opportunity to suggest how the employee experience could be improved. We will continue to ask our employees every year, as it is a key method of assessing the impact of the HR plan.

Employees receive corporate news through: internal notice board statements; the employee intranet, Capita Connections; Yammer; and regular email updates on business performance from both divisional Executive Officers and the 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 and 'Ask Jon' portal, to ask questions and discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Company. The 'Ask Jon' portal was launched in early 2018 and provides a platform for all employees to submit to the CEO their questions and thoughts across a range of different business-related topics and have their questions answered by Jon.

Capita has an established UK 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. An international share incentive plan is available to employees in Ireland and Poland.

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. In addition, the Local Heroes campaign gives our people and senior management the opportunity to celebrate each other and recognise how people across Capita have contributed to the success of the business. Each month, Capita celebrates the individuals who are helping the Group to simplify, strengthen and succeed, be innovative and have a positive effect on our local communities and environment.

Our people plan also has a clear focus on performance and development. This will be driven by the launch of Capita Academy, which will focus on introducing consistent approaches to managing performance and developing our people, while ensuring we recruit and develop for the future by sourcing and developing graduates and apprentices. These activities will ensure we have not only the correct quality of people delivering to our customers, but also an appropriate leadership pipeline for the future. We have already started on this journey, with the pilot of an academy programme focused on equipping managers with the leadership skills and behaviours necessary for success.

Political donations

The Group did not make any political donation or incur any political expenditure during the year (2017: £nil).

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions, including metrics and methodology, are set out on page 42 of the strategic report.

Financial instruments

The Group's financial instruments comprise primarily loan notes, bearer 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 currency and interest rate risk profile.

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 with 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 is the potential default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and takes all reasonable steps to seek assurance that the counterparties 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 generate exposure to movements in EUR, CHF, INR and ZAR exchange rates. The Group seeks to mitigate the risk of this exposure by entering forward currency instruments, including non-deliverable forward contracts, to fix the GBP cost of highly probable forecast transactions denominated in INR and ZAR. A proportion of exposures to EUR is mitigated through borrowings in that currency. Further details of the Group's financial instruments can be found in note 26 to the consolidated financial statements on pages 144–152.

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 2019 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 is managed by the Directors who are subject to the provisions of the Companies Act 2006, the Articles of Association of the Company and 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 a change of control of Capita plc. The loan notes issued by Capita contain a change of control provision which is likely to require the Group to offer to prepay in full if a change of control event occurs.

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 shall be decided on a poll, and 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 2019 annual general meeting (AGM) of the Company will be held at Linklaters LLP, One Silk Street, London EC2Y 8HQ on Tuesday 14 May 2019. 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 2018 Annual Report and includes notes explaining the business to be transacted. The Notice of Meeting is also available on the Company's website at www.capita.com.

In June 2018, shareholders granted authority for the Company to purchase up to 166,838,714 ordinary shares. This authority will expire at the conclusion of the 2019 AGM. No shares were purchased during 2018. A resolution to renew this authority will be put to shareholders at the 2019 AGM.

The Directors consider that each of the resolutions is 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 clear working 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	111
9.8.4 (12-13)	Shareholder waiver of dividends	63

Corporate governance statement continued

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.
- State, for the Group financial statements, whether they have been prepared in accordance with IFRSs as adopted by the EU.
- State, for the parent company financial statements, 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.
- Use the going concern basis of accounting unless they intend either 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 is 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.

Directors' responsibility statement

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 taken as a whole.
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report and Accounts, taken as whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors' Report (pages 54–98) has been approved by the Board.

On behalf of the Board.

Francesca Todd
Group Company Secretary
13 March 2019

Capita plc

Registered in England and Wales No. 2081330

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 Board and senior management positions. • Oversees development of diverse pipeline for succession.
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 external Auditor. • Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.
Remuneration Committee	• Sets policy for Board and senior management remuneration. • Approves individual remuneration awards. Agrees changes to senior executive incentive plans.
Disclosure Committee	• Comprises any two of the Chairman, Senior Independent Director and the Executive Directors. Responsible for the appropriate identification and management of inside information, including any decision to delay public disclosure.

Membership

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

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

(C) Chairman

Frequency of meetings and attendance

During 2018, the Nomination Committee met four times, the Remuneration Committee met 12 times and the Audit and Risk Committee met nine times. A number of unscheduled committee meetings took place during the year in connection with the rights issue and significant changes to senior management. Some Directors were unable to attend every additional ad hoc meeting due to prior commitments. Attendance of Directors at committee meetings is shown in the following table:

	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings	**9**	**12**	**4**
Sir Ian Powell[1]	n/a	n/a	4
Gillian Sheldon	8	12	4
Matthew Lester	9	8	4
John Cresswell	7	12	4
Andrew Williams	9	11	4
Baroness Lucy Neville-Rolfe	8	11	4

1 Sir Ian Powell is not a member of the Audit and Risk, and Remuneration committees, but was invited to, and attended, all meetings.

Consideration of meeting times has to include flexibility to hold meetings outside 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 chairman of the relevant committee.

Nomination Committee

Members:

- Sir Ian Powell
- Gillian Sheldon
- Matthew Lester
- John Cresswell
- Andrew Williams
- Baroness Lucy Neville-Rolfe

"Capita sees significant business benefit from the diversity of thought that comes from people with a wide range of backgrounds at all levels in the Group."

Sir Ian Powell
Chair
Nomination Committee

The Committee met four times in 2018 and members' attendance record is shown on page 69.

The Group Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

The Committee reports and makes recommendations to the Board in relation to its activities and deliberations. It is authorised under its terms of reference to obtain the advice of independent search consultants. The Committee's terms of reference were reviewed and updated during the year and can be found on Capita's website at www.capita.com/investors.

Diversity

Capita's equality and diversity policy, which includes the Board, is based on the belief that success is a direct result of the experience and quality of its people. Inherent within this approach is an acceptance and embracing of diversity in all its forms and an endorsement that the entire workforce, including the Board, be representative of the community in which Capita operates. Key aims of the policy are to ensure equality, diversity and inclusion in the workplace and to promote a culture where everyone is treated with respect and dignity.

Capita sees significant business benefit from the diversity of thought that comes from people with a wide range of backgrounds at all levels in the Group. Only by encouraging this diversity and by fostering talent throughout the business can the Group expect to achieve further diversity in senior management. Capita has a network of diversity champions across the businesses and the Group's training and mentoring initiatives actively support the fostering of talent at all levels in the business across the Company's diverse workforce. The Board and senior management teams across Capita are fully committed to working to provide an environment where everyone has the opportunity to fulfil their potential. The Group will continue to appoint and promote people on merit and in line with the skills and attributes identified for each post. Further information on diversity, inclusion and wellbeing is on pages 37–38 of the strategic report.

Gender balance

At 31 December 2018, female representation on the Board and Executive Committee was 29% and 20% respectively. From 1 January 2019, following Patrick Butcher's appointment to the Board, female representation is 25% and 19% respectively. At 31 December 2018, female representation among senior management[1] and their direct reports was 28%.

1 The 2018 Code defines senior management as the Executive Committee and the Group Company Secretary.

Responsibilities and activities

Key responsibilities	Activity in 2018
• Identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the 2018 Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition. • Keep the structure and size of the Board and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board. • Review the time commitment required from Non-Executive Directors, the performance of Directors and all declarations of interest made by Board members. • Consider Capita's diversity position.	• Succession planning for the Board generally and for other senior positions below Board level. • Recruitment and appointment of new Chief Financial Officer: the external search agency, Lygon Group, was used for this appointment and it has no other connection with the Group. • Consideration of Directors' performance, length of service, interests and potential conflicts to ensure independence of NEDs and that all Directors could stand for re-election or election at the AGM. • Discussed and approved the resignations of Nick Greatorex and Chris Sellers.

Audit and Risk Committee

Members:

- Matthew Lester
- Gillian Sheldon
- John Cresswell
- Andrew Williams
- Baroness Lucy Neville-Rolfe

"A key area of focus will be to ensure the Group's new operating model delivers a more efficient control and risk process."

Matthew Lester
Chair
Audit and Risk Committee

This year's independent evaluation of the Committee has concluded that the Committee fulfils its role of supporting the Board in its review of the integrity of the Group's financial reporting, monitoring the effectiveness of the Group's systems of risk management and internal controls, and overseeing the activities of the Group's internal audit function and its external auditor.

In line with Capita's multi-year transformation, the Committee meetings have changed to go deeper into relevant issues. However, more is required if the Committee is to become really effective. Now that the senior leadership team is complete and Capita is on a sounder footing, this is an achievable objective. The other key area of focus for the Committee will be to ensure the Group's new operating model delivers a more efficient control and risk process.

Committee membership and attendance

All members of the Committee are independent and I am considered to have recent and relevant financial experience for the purposes of the UK Corporate Governance Code 2016.

To encourage effective communication, in addition to the above members, the Board Chairman, Chief Executive Officer, Chief Financial Officer, Chief General Counsel and Director of Group Finance are invited to attend Committee meetings along with certain members of the senior management team, the Group Internal Audit Director, the Chief Risk & Compliance Officer, and representatives from KPMG, the Group's external auditor. Opportunity exists at the end of each Committee meeting for the representatives of the internal and external audit teams to meet with the Committee in the absence of management and both have access to the Committee should they wish to voice any concerns outside formal meetings.

Committee performance was assessed as part of the externally facilitated Board evaluation (see page 55 for more information). The Board is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the Committee has competence relevant to the sector in which the Company operates.

The Group Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

How the Committee operates

The Committee has established an annual forward agenda to cover the key events in the financial reporting cycle, specific risk matters identified by the Committee and standing items that the Committee is required to consider in accordance with its terms of reference. The annual agenda is supported by agenda setting meetings held in advance of each Committee meeting, led by me and attended by senior management. Their purpose is to identify key issues impacting the business that may require consideration by the Committee.

Reports are received from the Group Risk & Compliance and Group Internal Audit departments and new sales wins and their contract terms are reviewed from a risk and accounting perspective as appropriate. At each Committee meeting, the members may receive other reports and presentations covering key financial reporting, risk, compliance and audit matters which are delivered by key senior personnel who attend by invitation to enable any clarification or queries to be provided to the Committee. I report to the Board the key matters of discussion and make any significant recommendations as necessary.

Audit and Risk Committee continued

Role and responsibilities

The Audit and Risk Committee is responsible for carrying out the audit functions as required by DTR 7.1.3R and assists the Board in fulfilling its oversight responsibilities in respect of the Company and the Group. The Committee's key responsibilities are:

Financial reporting	• To review the reporting of financial and other information to the shareholders of the Company and monitor the integrity of the financial statements, including the application of key judgements in determining reported outcomes to ensure that they are fair, balanced and understandable.
Risk management, internal controls and compliance	• To review and assess the adequacy of the systems of internal control and risk management and monitor the risk profile of the business.
Internal audit	• To approve the annual internal audit plan, review the effectiveness of the internal audit function and review all significant recommendations and ensure they are addressed in a timely manner.
External audit	• To review the effectiveness and objectivity of the external audit process, assess the independence of the external auditor and ensure appropriate policies and procedures are in place to protect such independence.
Cybersecurity	• To review and assess cybersecurity risk and governance including IT security for the Group and monitor risks within this area.
Effectiveness	• To report to the Board on how it has discharged its responsibilities.

The Audit and Risk Committee's terms of reference set out in full the role, responsibilities and authority of the Committee and can be found on the Company's website at www.capita.com/investors. These were reviewed and updated during the year.

How the Committee discharged its roles and responsibilities in 2018

The Committee met nine times during the year and attendance at each meeting is shown on page 69. Meetings are planned around the Company's financial calendar. Additional meetings were held during the first part of the year to discuss the impact of the new strategic plan and the rights issue, and to consider certain additional financial reporting in respect of the rights issue.

Financial reporting

Accounting judgements and significant accounting matters

As part of the process of monitoring the integrity of the financial information presented in the half-year results and the Annual Report and Accounts, the Committee reviewed the key accounting policies and judgements adopted by management to ensure that they were appropriate. The significant areas of judgement identified by the Committee, in conjunction with management and the external auditor, together with a number of areas that the Committee deemed significant in the context of the financial statements are set out in the tables on pages 73–75.

The Committee is assisting the Board to review the key metrics to be used to measure the value creation for Capita's shareholders, recognising that historical measures such as profitability may not be as relevant as free cash flow, given the impact certain policies have on the timing of recognition of profits and cash inflows. The Chief Financial Officer's review sets out the key areas where current accounting requirements separate profit recognition from cash flows.

During 2018, the Committee received presentations from the Executives and divisional management on the performance of major contracts. This included an analysis of the IFRS 15 reported profits and highlighted the particular challenges of measuring performance for a contracting business. For certain projects the contract lifetime models benefit from the recognition of deferred income, for which there is no future cash inflow, as the associated cash has been received in prior-year transformation milestone receipts.

The recognition of deferred income is a positive reflection of the Group's delivery against its future performance obligations. This 'business as usual' activity is a core value, as it underpins the continued delivery of valuable services and solutions to the Group's customers. The flip-side comes when the Group's transformation plan successfully secures new contract wins, as the early cash milestones are likely to be significant, generating new deferred income and with cash in excess of profits in the early years.

Accordingly, the Committee is reviewing with the Board how free cash flow can be used to reflect the value creation for shareholders, recognising that outside the core contracting activities there are other commitments, and in particular the pension deficit repayment plan; free cash flow will not always be reflected in the reported profits (refer to note 29 to the consolidated financial statements). The Board will continue to review how the different measures are presented and the Committee has requested management that carries out a fundamental review of how free cash flow is disclosed, so the reader can obtain a clear understanding of the key value drivers.

Fair, balanced and understandable

At the Board's request, the Committee considered whether the half-year results and the Annual Report and Accounts were fair, balanced and understandable and whether the information provided was sufficient for a reader of the statements to understand the Group's position and performance, business model and strategy. The Committee reviewed both the narrative and financial sections of the reports to ensure they were consistent and gave a balanced view of the performance of the business in the year and that appropriate weight was given to both positive and negative aspects. The Committee also assessed whether important communications issued during the year were presented clearly.

The Committee considered whether the Annual Report and Accounts enable readers to understand the Company's financial position and prospects, as well as assess its going concern status and longer-term viability.

Significant issues in relation to the financial statements considered by the Audit and Risk Committee

Revenue and profit recognition

Matter considered	Action	Outcome
There is significant risk on long-term contracts related to revenue recognised from variations or scope changes, where significant judgement is required to be exercised by management. There is a risk that revenue may be recognised even though it is not probable that consideration will be collected, which could be due to uncertainties over contractual terms and ongoing negotiations with clients.	The Committee received regular updates on all major contracts during the year and specifically reviewed the material judgements as part of the year-end close process. The Committee has also considered the recognition of onerous provisions, where appropriate, and the lifetime profitability of contracts.	The revenue recognition policy includes disclosure of the significant judgements and estimates in relation to its application and the Committee is satisfied that these have been properly disclosed. The Committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue across the Group, including the recognition of deferred income at the balance sheet date.

Contract fulfilment assets

Matter considered	Action	Outcome
The adoption of IFRS 15 has led to the recognition of contract fulfilment assets (CFAs). Judgements are involved in assessing whether the costs incurred on a contract, or an anticipated contract meet the capitalisation criteria as set out under the standard. In addition, the amortisation of these assets involves estimation of the expected life of the contract.	As part of the adoption of IFRS 15, the Committee has considered and challenged the significant judgements and estimates involved in determining the carrying value of CFAs. As part of the review of all major contracts, the Committee has also considered the recoverability of CFAs. During the year, the Committee discussed certain CFAs where their recoverability was in doubt. Management agreed not to capitalise these until the necessary actions to underpin the contracts' profitability had taken place.	The Committee is satisfied that appropriate judgements and estimates have been made in determining the carrying value of CFAs and the extent of impairment of CFAs recognised in these statements is appropriate. The Committee is satisfied that the accounting policy note provides sufficient clarity as to the new policy adopted.

Impairment of intangible assets, goodwill and parent company's investment in subsidiaries

Matter considered	Action	Outcome
The Group carries significant asset balances in respect of goodwill and intangible assets related to its acquisition activity. In addition, the parent company carries a material balance of investment in subsidiaries on its financial statements. The impairment assessment requires the application of judgement concerning future prospects and forecasts.	The Committee has reviewed the robustness of the impairment model and challenged the appropriateness of assumptions used to calculate and determine the existence of impairment. The Committee considered the events and circumstances that have led to the impairment charges since the publication of the interim results in August 2018. In particular, the Committee considered the continuing challenges both operationally and within the market served, the continued attrition in sales and the more significant contract terminations experienced. The impairment of goodwill and intangible assets at Group level indicates that there may also be impairment of investment in subsidiaries on the parent company's financial statements. Accordingly, the Committee has reviewed the assumptions and calculation of impairment of these investments.	The Committee is satisfied that the impairment of goodwill and intangibles recognised in these statements is in line with expectations given the performance of certain areas of the Group's business in the year and the update on the trading outlook. The Committee is also satisfied that the assumptions, methodology and disclosure in note 15 to the consolidated financial statements are sufficient to give the reader an understanding of the action taken and the sensitivities within the goodwill and intangible assets balance to any further impairment risk. Of particular importance to the Committee was the inclusion of sufficient disclosures to set out the events and circumstances that have led to the impairment charges recorded in the year. The Committee also considered that any impairment of investment in subsidiaries at the parent company level were appropriate and properly accounted for.

Audit and Risk Committee continued

Items excluded from adjusted results

Matter considered	Action	Outcome
As stated in its accounting policies, Capita separates its results between adjusted and reported to provide useful disclosure to aid the understanding of the performance of the Group. The Committee needs to ensure a fair and balanced treatment of what is and is not included as an adjusting item.	The Committee has reviewed the individual items excluded from adjusted results, in particular the items relating to pensions. The Committee has requested further information concerning the origination of the items where they felt it was necessary to enable a conclusion to be drawn as to whether the chosen presentation achieved the stated principal. The Committee has considered the accounting policy by reference to guidance issued by the FRC and the need to ensure any alternative performance measures are presented with equal prominence to reported figures and on a consistent basis year-on-year. The Committee considered the appropriate presentation to apply for the costs associated with the transformation plan which are presented as an 'adjustment' to the reported results. The plan is extensive and covers a number of Capita-wide initiatives to address the cost competitiveness of the businesses and to simplify and strengthen the Group. Categories of expenditure include costs typically associated with major restructuring such as severance payments, but also include costs related to the offshoring of activities and the introduction of automation and digital solutions, a Group-wide property rationalisation and finance transformation project. To support these activities, external professional fees are being incurred in addition to dedicated internal costs. Where such costs are incremental and directly related to the transformation plan, the Committee has concluded that such costs should be included in the overall transformation costs that are separately presented. In agreeing this presentation, the Committee was mindful of the guidance issued by the FRC in November 2017 in terms of multi-year major 'restructuring' programmes. This directs boards to define the costs to be presented separately, set borders to capture only relevant costs, and emphasises that disclosures to explain the costs must be transparent and of high quality. The Committee considers that this guidance has been applied and note 3 to the consolidated financial statements provides details of the costs incurred in 2018. The Committee will continue to review this policy in 2019 and beyond, as the transformation programme continues.	The Committee concurs with management's view that the presentation of items excluded from adjusted results provides useful disclosure to aid the understanding of the performance of the Group and agree that the items excluded meet with the stated policy for recognition. Note 3 to the consolidated financial statements sets out the items that are separately presented, and the Committee is satisfied that this provides sufficient information to inform a reader on each category presented. The Committee also notes that the approach is consistent with that used for the rights issue in 2018. The Committee has asked the new CFO to continue to review the approach in 2019.

Provisions and contingent liabilities

Matter considered	Action	Outcome
There is judgement applied in the level of provisioning across the Group. This involves making an assessment of the size, timing and probability of economic outflows due to the occurrence of a past event. It is therefore important to understand the judgement being made as well as the estimate of any accompanying outflow of funds.	The Committee has reviewed the disclosure in the financial statements, in particular it has challenged management to justify provisioning levels where a range of outcomes has been identified.	The Committee is satisfied with the fact patterns underlying the provisions, with both the treatment and levels of provision being properly justified.

Pensions

Matter considered	Action	Outcome
The measurement of the defined benefit liability in respect of defined benefit pension schemes operated within the Group is a complex area, relying on assumptions on inflation, mortality, corporate bond yields, expectations of returns on assets and a number of other key inputs. There is a risk that any one of these could lead to misstatement of the Group's liability in respect of pension obligations and the pension charge or movement recognised in the income statement or statement of comprehensive income.	The Committee has reviewed the disclosure as presented in the accounts. The Committee also challenged the key assumptions and reviewed the sensitivity to changes in some of the key assumptions both on a stand-alone basis as well as in the context of defined benefit schemes across other external benchmarks.	The Committee is satisfied that the estimation of the Group's pension liabilities and the narrative that accompanies them gives the required level of information for a reader of the accounts to determine the impact on the Group of its pension obligations.

Going concern

Matter considered	Action	Outcome
Consideration of the going concern assumption is the responsibility of the Board, and the Committee conducted an assessment as part of its support role, given the inherent judgements required to be made in relation to the forecasts and definitions within the covenant calculations.	The going concern assertion has a significant impact on the basis of preparation of the financial statements. The Committee considered the business plan projections that cover the two years to 31 December 2020. The Committee considered the assumptions behind the plausible but severe downside scenarios used for stress testing the Group's ability to meet its obligations as they fall due. It also considered and challenged the mitigating actions proposed by management. The Committee has challenged the key assumptions, as set out on page 65. The Committee considered compliance with the key covenants included in the Group's committed facilities and private placement notes, including maximum ratios of adjusted net debt to adjusted EBITDA. The Committee considered the judgements made by management in calculating the adjusted EBITDA. In particular, consideration was given to consistency of treatment with the prior year, including the exclusion of restructuring. Applying the downside scenarios, the Committee concluded that, assuming no mitigating actions are taken, the available headroom is sufficient to operate within the 3.0 times adjusted net debt to adjusted EBITDA ratio. The Committee considered the going concern assumption disclosures. The Committee considered the requirements of the Code as it applies to the Group's viability statement including the three-year period of assessment which aligns with the Group's planning horizon and the processes supporting the viability statement. After significant discussion and having considered the various stress testing scenarios that were presented as part of the viability assessment alongside the liquidity and debt positions of the business, the Committee determined that the three-year measurement period continued to be appropriate and that the viability statement (as set out on page 52) should be recommended to the Board for approval.	The Committee is satisfied that page 65 includes detailed disclosures concerning the going concern assertion and key assumptions applied to inform the users of the assessment undertaken by the Board.

Audit and Risk Committee continued

Other issues considered in relation to the financial statements

Materiality

Materiality is important in determining the risk attached to any judgement. The Committee considers the audit materiality set by the external auditor to ensure that the Audit and Risk Committee is informed of individual items above a certain threshold that are most likely to have an impact on the financial statements. The Audit and Risk Committee reviews the external auditor's report and the individual items that breach the materiality thresholds and assess their relative impact on the reported statements. These are: income statement, balance sheet, statement of changes in equity and cash flow, as well as the notes to the accounts.

The Committee requests further clarification from both the external auditor, the Chief Financial Officer and Director of Group Finance as to the nature of these items and also their relative importance in the financial statements.

After having made such enquiries, the Audit and Risk Committee is satisfied that materiality has been applied correctly in the accounts and that material items brought to its attention remain unadjusted where its inclusion would not cause detriment to the overall reading of the financial statements.

Disclosure of information to the auditor

The Directors who held office at the date of the approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information required for the audit and to establish that the Company's auditor is aware of that information.

Statutory auditor

The Committee provides a forum for reporting by the Group's auditor (KPMG) and it advises the Board on the appointment, independence and objectivity of the auditor and on fees earned for both statutory audit and non-audit work. The Committee discusses the nature, scope and timing of the statutory audit with the auditor and, in making a recommendation to the Board on auditor reappointment, performs an annual, independent assessment of the auditor's suitability and performance.

The external auditor attends meetings of the Committee and provides updates on statutory reporting, non-audit fees and ongoing audit items.

The auditor has opportunity to raise concerns with the Chairman separately and in private session with the Committee. Specifically, the Committee asks the auditor if discussion of business performance in the strategic report is consistent with the impression of Capita the auditors have gained. Any material discrepancies are discussed (refer to the independent auditor's report).

Auditor independence

The Committee takes seriously its responsibility to put in place safeguards to auditor objectivity and independence. The Company is committed to ensuring appropriate independence in its relationship with the auditor and the key safeguards are:

- The Chief Financial Officer monitors the independence of the auditor as part of the Group's assessment of auditor effectiveness and reports to the Audit and Risk Committee.
- The Chief Financial Officer monitors the level and nature of non-audit fees accruing to the auditor, and specific assignments are discussed in advance with the auditor and flagged for the approval of the Audit and Risk Committee, as appropriate, and in accordance with the Company's policy on the provision of non-audit services by the auditor. The Audit and Risk Committee reviews, in aggregate, non-audit fees of this nature on a six-monthly basis and considers implications for the objectivity and independence of the relationship with the auditor.
- The auditor provides confirmations of its independence to the Audit and Risk Committee every six months.

Ensuring conflicts of interest are avoided is a fundamental criterion in the selection of any third-party auditor. Such conflicts may arise across public or private sector clients and key supplier relationships, for example, and are a key determinant in the award process for external audit assignments.

Non-audit services and fees

The Committee has established a policy on the provision of services by the Group's auditor. The policy describes the circumstances in which the auditor may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the policy and considers and approves requests to use the Auditor for non-audit work. Any assignment where the expected fee is above £150,000 requires specific approval from the Committee or a member of the Committee. The Group Company Secretary deals with day-to-day administration of the policy, facilitating requests for approval by the Committee. All work with the external auditor outside of the audit has to be pre-approved by the Chief Financial Officer. The auditor undertook various non-audit work in 2018 primarily related to their role as Reporting Accountant in connection with the rights issue, and the Interim Review. Only the Audit and Risk Committee can authorise the scope and policy on non-audit fees.

Non-audit fees this year are 23% (2017: 17%) of all fees paid to the external auditor. The Committee continued to receive updates throughout the year on approval of fees exceeding the threshold stated above.

The policy is reviewed annually by the Committee. During 2018, our external auditor, KPMG, announced a new policy with regard to the provision of non-audit services to FTSE 350 audit clients and this is therefore applicable to non-audit services provided to Capita plc.

With effect from 1 January 2019, to avoid the perception of a conflict, KPMG will not perform, and will not approve requests from other KPMG member firms to perform, non-audit services for FTSE 350 listed audit clients other than services closely related to the audit. Such services include those required by laws and regulations, or where it is more practical for the external auditor to perform the service (e.g. reporting accountant role related to certain public company transactions). KPMG will also continue to deliver the Interim Review which though technically classified as a non-audit service, relates closely to the audit.

Details of audit and non-audit fees are given in note 7 to the consolidated financial statements and a summary of non-audit fees is shown in the table below.

	2018 £m	2017 £m
Non-audit services		
Taxation compliance services	—	0.1
Services related to corporate finance transactions	—	0.1
Other assurance services	1.6	0.8
Total non-audit services	1.6	1.0

External auditor performance

The Committee discussed the performance of KPMG during the period and was satisfied that the level of communication and reporting was in line with requirements. This also included a review of effectiveness and quality of the audit process, audit planning and a post-audit evaluation.

The Committee has ensured that the evaluation is integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor's judgements made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.

Financial Reporting Council: audit quality inspections

Each year the Audit Quality Review team (AQR) of the FRC issues a report that sets out the principal findings arising from the audit quality inspections conducted in the previous calendar year across a sample of audits for all major audit firms. The AQR's objective is to monitor and promote improvements in the quality of auditing. The reports highlight improvements required to promote audit quality, and areas of good practice. The FRC publishes separate reports on the individual firms, including KPMG.

The Committee received a presentation from the KPMG lead audit partner on the findings from the FRC Audit Quality Inspection Report for KPMG and the proposed improvement plans put forward by KPMG in response, including details of the Audit Quality Transformation Programme initiated by KPMG. The Committee will closely monitor progress against these plans.

AQR review of the Capita 2017 audit by KPMG

During the year, the 2017 audit of Capita plc by KPMG was reviewed by the FRC's AQR.

Certain matters for improvement were identified, including how KPMG evidenced all areas of the audit work performed, and the conclusions reached, concerning the Company's impairment models. The AQR also highlighted good practice observations in relation to KPMG's challenge over going concern and the approach adopted to auditing Capita's long-term contracts. The Audit and Risk Committee and KPMG have discussed the review findings and the identified improvement observations, and are satisfied with responses to be implemented by KPMG in the 2018 audit.

Overall, the results of the review raised no issues which cast doubt on the fundamental quality of Capita's external audit and the Committee remains satisfied with the efficiency and effectiveness of the audit. KPMG LLP have also discussed more generally the firm's process for enhancing audit quality which includes internal quality reviews. KPMG LLP reported to the Audit and Risk Committee as part of their April 2018 report on these matters, with the Audit and Risk Committee concluding that the findings were being addressed.

External audit tender

The Company's audit services were last subject to a tender process in 2010, at which time KPMG Audit Plc, subsequently KPMG LLP, replaced Ernst & Young LLP as the Group's auditor. The lead audit partner is rotated on a five-yearly basis. The current lead audit partner rotated on to the audit at the conclusion of the 2016 audit. There are no contractual obligations which restrict the Committee's choice of auditor.

Under the requirements of the Statutory Audit Services Order and the EU Audit Directive and Audit Regulation, the provision of audit services should be re-tendered every 10 years. The complex nature of the Group requires that a knowledge base is built up year-on-year by the incumbent to ensure that the external audit is conducted with a proper understanding of the Group's operations and the nature of the risks that it faces. This is an important factor in ensuring audit quality.

The Group has complied with the provisions of the Statutory Audit Services Order.

A pre-selection process was carried out in preparation for the tender. Pre-qualification questionnaires were completed to identify those firms with sufficient FTSE experience, sector expertise, and resources to provide a good cultural fit and which were not conflicted by virtue of substantial ongoing non-audit work. Following detailed reviews and preliminary meetings with potential firms, a shortlist was identified and firms asked to submit proposals against a detailed invitation to tender.

Following review and agreement on a final shortlist, partners of two firms met with management and members of the Committee to outline further the skills and attributes expected of an external audit team. The selection criteria were developed into a scorecard for the Audit Committee. The categories were:

- technical competency and experience
- high-quality tailored audit
- culture and teaming
- innovation and technology.

The final short-listed firms met with divisional and central services management, and the CEO and Committee Chairman met with key partners for one-to-one discussions. Following feedback from management, each of the two firms presented to the Committee Chairman, Baroness Lucy Neville-Rolfe, CFO, Director of Group Finance, Head of Procurement and Director of Commercial & Financial Accounting in December 2018, ahead of the Committee making its final decision for recommendation to the Board. Following the detailed tender process, the Committee recommended to the Board that KPMG be re-appointed as external auditor.

External auditor re-appointment

A resolution to re-appoint KPMG as the external auditor of the Company will be put forward at the forthcoming annual general meeting. If approved, KPMG will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, and their remuneration will be fixed by the Committee.

Review of risk management and internal control

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control and risk management. The risk management framework and processes are set out on pages 44–51.

Effectiveness and efficiency of risk management

During the year, the Committee focused on key risk themes such as IT resilience, cyber-risk, management of client money, regulatory risk, information security and data management. The Committee received reports on the following themes during the year:

- IT resilience and ensuring that customer data was kept safely and in a controlled manner.
- Financial Services regulated businesses, in particular, conduct matters, the significance within the Group of the regulated environment and co-operation with the Financial Conduct Authority.
- Primary Care Support England contract with NHS England where some performance obligations had not been correctly identified in line with the contract.

As a consequence of the above areas, a review of the first line control framework has been instigated to ensure that lessons are learned across the business and that appropriate controls are in place.

This together with other matters reported to the Committee highlighted areas where there is a need for improvement in operational risk management and verification by internal audit.

Audit and Risk Committee continued

However, the Committee concluded the risk management processes were materially adequate and there were no material weaknesses requiring specific disclosure.

Effectiveness and efficiency of financial controls

As noted in the Annual Report and Accounts 2017, Capita has embarked on a finance transformation which it expects will drive improved data quality, standardisation of activities performed by the finance community and optimise the use of offshoring and shared service centre delivery models. These actions are designed to develop and deliver better processes and controls across the business, improving the financial risk framework employed by the business.

As part of this programme, in the year under review, an evaluation of financial controls was undertaken by the senior finance team to review the material financial controls that are in place and to identify areas where these might only be partially effective or be inefficient in achievement of their purpose. The results of the review completed by management was shared with KPMG to ensure the combined approach delivers value within the context of an external audit and the robustness of the financial statements. Any material issue was dealt with through mitigating activities.

Learnings gained from the review will be considered by senior management within the construct of the wider finance transformation to ensure that the financial risk framework is improved and strengthened. This is expected to deliver value to both the business and its stakeholders by improving the safeguarding of the Group's financial position and additionally to our external auditor in relation to the scoping, efficiency and planning of their audit.

As part of its remit to ensure the robustness of the Group's internal control frameworks, the combination of the findings from the above exercise and the scoping of the programme will be monitored by the Committee.

The Committee concluded financial control processes were materially adequate and there were no material weaknesses requiring specific disclosure.

Internal audit

The Group Internal Audit function has an administrative reporting line to the Chief Financial Officer and an independent reporting line to me as Chairman of the Committee. The function has in place a co-sourcing arrangement with PricewaterhouseCoopers LLP which adds expertise and breadth to the work of the in-house audit team.

During the year, a programme of internal audits was completed. The scope of audit work generally focuses on assessing the adequacy and effectiveness of controls including management oversight and the degree of management risk awareness within the businesses that are subject to audit.

Throughout the year, the Group Internal Audit function provides written reports to the Group Audit and Risk Committee on the work carried out to date and the in-flight work to be completed. A verbal update accompanies each report submitted to the Committee. An annual report is provided each year summarising the key matters arising. The representations given set out strengths and weaknesses identified during the work, together with any recommendations for remedial action or further review.

The Group Internal Audit team reported weaknesses in compliance with Group policies, particularly the Group Security Standards, controls over data management, system access and measures to safeguard both employees and the public. In all cases, management has responded with appropriate action to mitigate the associated risks and Divisional Executive management have increased visibility on those issues of significance. In addition, there has been focus by senior management to improve the control environment through the closure of previously overdue audit actions.

The Committee reviews management's response to the matters raised and ensures that any action is commensurate with the level of risk identified, whether real or perceived.

Through the regular interaction between the Committee and Group Internal Audit Director, as well as the reports received from the function, the Committee is able to assess and satisfy itself that the Group's provision of internal audit is effective. At the request of the Committee, a review of the function is currently under way as part of Capita's wider transformation programme, in order to ensure the function provides assurance in an efficient as well as effective manner. In particular, this will seek to leverage the control and risk self-assessment process, referred to in the 'internal control and risk management' section of the strategic report, and focus on business unit key-control reviews. This review is being undertaken by the Group Internal Audit Interim Director who joined Capita in October 2018 following the departure of the previous incumbent Head of Internal Audit during the year.

Anti-bribery and whistleblowing

Capita has a Group-wide anti-bribery and corruption policy, which is in compliance with the Bribery Act 2010. Procedures are reviewed periodically to ensure continued effective compliance in Group businesses around the world.

A 'Speak Up' policy provides the framework to encourage and give the workforce confidence to 'blow the whistle' and report irregularities. Employees are encouraged to raise concerns with designated individuals and there is a dedicated email hotline to make it easy to raise concerns. These are investigated on behalf of the Board and reported to it, together with details of corrective action taken. Following the introduction of the 2018 Code, oversight of these arrangements is now a matter reserved for the Board.

Matthew Lester
Chairman
Audit and Risk Committee
13 March 2019

Group Executive Risk Committee

The Group Executive Risk Committee (ERC) assesses risk across all Capita businesses and reports to the Audit and Risk Committee. It holds scheduled meetings on a quarterly basis. Membership comprises the CEO, CFO, Chief General Counsel, Group Commercial Director, Chief Risk & Compliance Officer and the six divisional Executive Officers. The Group Internal Audit Director has a standing invitation, and the Non-Executive Directors have an open invitation, to attend all meetings. Following the resignation of Tim Brooke as independent committee chairman in August 2018, the role of chairman was assumed by the CEO, Jon Lewis.

The ERC's role is to oversee and challenge the key risk and compliance activities and issues in Capita's businesses by:

- Reviewing the residual risk profile of Capita businesses, along with ensuring appropriate remedial actions are taken in line with Group objectives and risk appetites.
- Reviewing and monitoring Group control function activity and oversight plans.
- Tracking key regulatory changes affecting the Group's businesses.
- Tracking key business developments, including bids, acquisitions and offshoring developments.
- Receiving updates on regulatory capital issues, e.g. Internal Capital Adequacy Assessment Process (ICAAP).
- Receiving updates on conduct risk issues.
- Reviewing, and recommending for adoption, policies applicable to the Group's businesses.
- Identifying items for the attention of the Board or Group Audit and Risk Committee.

The scope of the Committee covers all Capita businesses, including regulated activity in all jurisdictions in which the Group operates.

The Committee structure was reviewed during the year and, in November 2018, the Group Technology & Security Risk Committee, which focused on risk relating to information systems and security, and IT infrastructure, was merged into the ERC to simplify risk oversight. However, in order to retain an element of independent oversight of risk within Capita's regulated businesses, the former Financial Services Risk Committee will be reconstituted during 2019 to take on this responsibility, with an independent chairman, as a committee of the ERC. Where appropriate, matters will be escalated to the ERC, which reports regularly to the Audit and Risk Committee, and feedback from both committees will be provided to the Audit and Risk Committee on a regular basis.

During 2018, the ERC met four times and the Group Technology & Security Risk Committee met three times prior to being merged into the ERC. Membership and meeting attendance are set out in the tables on this page. The maximum number of meetings that could be attended is shown in brackets.

Group Executive Risk Committee:

Name of member	Title	Number of meetings attended
Jon Lewis (Chairman)[1]	Chief Executive Officer	4(4)
Patrick Butcher[2]	Chief Financial Officer	0(0)
Mike Barnard	Executive Officer, Customer Management	4(4)
Joe Hemming	Executive Officer, IT & Networks	3(4)
Patrick Elliott	Interim Executive Officer, Government Services	1(1)
Erika Bannerman	Executive Officer, People Solutions	4(4)
Jim Vincent	Executive Officer, Specialist Services	4(4)
Chris Baker	Executive Officer, Software	2(4)
Claire Chapman	Chief General Counsel	4(4)
Rob Tolfts	Group Commercial Director	4(4)
Sue Williams	Chief Risk & Compliance Officer	2(2)
Nick Greatorex[3]	Chief Financial Officer	2(2)
Tim Brooke[4]	Independent Chairman	2(2)
Stephen Sharp[5]	Executive Officer, Government Services	3(3)
Peter Hepworth[6]	Executive Officer, Professional Services	1(1)
Chris Terry[7]	Group Risk & Compliance Director	2(2)

1 Jon Lewis chaired two of the four meetings following Tim Brooke's resignation.
2 Patrick Butcher was appointed as a Director of Capita plc, and joined the ERC, on 1 January 2019.
3 Nick Greatorex, former Chief Financial Officer, resigned from the Board and all committees on 30 September 2018.
4 Tim Brooke, former independent Chairman, resigned as chairman of the ERC on 31 August 2018.
5 Stephen Sharp, former Executive Officer for Government Services, left Capita on 7 November 2018.
6 Peter Hepworth, former Executive Officer for Professional Services, left Capita on 21 May 2018.
7 Chris Terry, former Group Risk & Compliance Director, left Capita on 27 August 2018.

Group Technology & Security Risk Committee:

Name of member	Title	Number of meetings attended
Sue Williams (Chairman)	Chief Risk & Compliance Officer	1(1)
Jon Lewis	Chief Executive Officer	3(3)
Mark Brown	Chief Information Officer	2(3)
Claire Chapman	Chief General Counsel	1(2)
Nick Greatorex[1]	Chief Financial Officer	2(2)
Chris Terry[2]	Group Risk & Compliance Director	2(2)

1 Nick Greatorex, former Chief Financial Officer, resigned from the Board and all committees on 30 September 2018.
2 Chris Terry, former Group Risk & Compliance Director, left Capita on 27 August 2018.

Directors' remuneration report

Members:

- John Cresswell
- Gillian Sheldon
- Matthew Lester
- Andrew Williams
- Baroness Lucy Neville-Rolfe

"Our incentive plans are aligned with our business transformation to drive better outcomes for all stakeholders."

John Cresswell
Chair
Remuneration Committee

Annual statement

I am pleased to present the Remuneration Committee report for the year ended 31 December 2018. As Sir Ian Powell notes in his introduction, Capita is a business in transition as our leadership team and people restructure and build. The Remuneration Committee has invested significant time working with the CEO in building the leadership team, with Patrick Butcher joining as CFO and seven new appointments to the Executive Committee.

We received strong support for our 2017 Annual Report on Remuneration and we have spent significant time considering performance measures and targets for 2018 and 2019 to ensure they are meaningful, robust and aligned with our strategy.

Context to the Committee's decisions in the year

Since the arrival of Jon Lewis in late 2017, the business has begun a major transformation, with a rights issue, the formulation of a new business strategy and a series of disposals. Capita is now a much stronger business with a solid balance sheet, and a clear strategy for transformation that will see the business simplify, strengthen and succeed. Our overall remuneration framework has a number of specific objectives. It is designed to focus on value creation and share ownership to align the high-calibre executives appointed in 2017 and 2018 with the completion of the transformation and the delivery of the outcomes promised to shareholders. There are multiple considerations in the design of the overall framework to: ensure long-term shareholder value creation; and recognise Group performance and the individual's specific contribution to it, through an appropriate balance of short and long-term reward, as well as consideration of the level of reward available to employees in the wider Group. A good example of this is the pension contribution (or cash in lieu) for our CEO and CFO, which is the same level as is offered to other employees in the UK at 5% of salary.

We consulted with major shareholders to obtain their views on the design of our long-term incentive plan. Feedback received has been incorporated into the plan design for 2019; further detail is shared below. The Committee has also decided to introduce an additional two-year holding period for all share awards from 2019 onwards. In addition, the Committee has incorporated a discretion allowing the Committee to override formulaic outcomes in line with the changes to the new Corporate Governance Code.

Committee membership and attendance

All members of the Committee are Independent Non-Executive Directors. None of the Committee members have day-to-day involvement with the business nor do they have any personal financial interest, except as shareholders, in the matters to be recommended. The number of formal meetings held and the attendance by each member is shown in the table on page 69. The Committee also held informal discussions as required.

To encourage effective communication, in addition to the above members, the Board Chairman, Chief Executive Officer, and senior human resources personnel are invited to attend all or part of Committee meetings along with representatives from Deloitte, the Group's remuneration advisers.

The performance of the Committee is assessed as part of the Board performance evaluation undertaken annually.

The Group Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

How the Committee operates

The Committee has an annual agenda to cover the key planning and decision events in the annual remuneration cycle.

Each meeting is supported by an agenda-setting discussion held in advance with the Chief People Officer, Group Reward Director, Group Company Secretary and Deloitte to identify issues impacting remuneration that may require consideration by the Committee.

Regular reports including updates in corporate governance and regulatory developments are received from Deloitte. At each Committee meeting the members may receive other reports and presentations covering the annual pay review, incentive scheme arrangements, gender pay reporting, salary proposals for members of the senior team and approval of remuneration packages for new members of the CEO's team.

The Remuneration Committee's terms of reference set out in full the role, responsibilities and authority of the Committee and can be found on the Company's website at www.capita.com/investors. These were reviewed and updated during the year.

How the Committee discharged its roles and responsibilities in 2018

The Committee met 12 times during the year and attendance at each meeting is shown on page 69. In 2018, the Committee held a number of unscheduled meetings to both consider and approve the termination arrangements of exiting Directors and consider and approve the remuneration package for the incoming CFO.

Board changes in 2018

There were a number of changes at Board level in 2018: Chris Sellers stepped down from the Board on 23 January 2018, and left the Group on 31 January 2018; and Nick Greatorex stepped down from the Board and left the Group on 30 September 2018.

The termination arrangements are set out on page 97. The terms are in accordance with our remuneration policy and contractual obligations, and were considered equitable in the circumstances.

The Board conducted a thorough external search for our new Chief Financial Officer which resulted in Patrick Butcher being appointed to the Board with effect from 1 January 2019. The Remuneration Committee agreed a remuneration package for Patrick that reflected his considerable experience, comprising an annual salary of £430,000 and, in lieu of a pension scheme contribution, a cash contribution equivalent to 5% of base salary in line with our wider workforce.

Patrick will also be eligible to participate in the Company's annual bonus plan and long-term incentive plan (LTIP) in line with our policy. Buy-out remuneration awards were granted in relation to Patrick's appointment to compensate him for deferred share awards that he forfeited when he left Go-Ahead Group plc. Full details of these awards which are consistent in value and structure with the forfeited awards can be found on page 94.

Variable pay outcomes for 2018

Annual bonus

The maximum annual bonus for the Executive Directors that could be earned in relation to 2018 performance was 200% of salary (unchanged from 2017).

As reported in the Annual Report 2017, the Remuneration Committee exercised discretion in respect of 2017 bonus payments and determined that no bonus would be paid to Executive Directors for a second consecutive year. In this context, and with a new CEO recently appointed, the Executive Directors bonus plan for 2018 was redesigned to align with the transformation plan. Accordingly, the bonus plan was based on a rounded assessment of Group financial performance, incorporating free cash flow, cost-out measures alongside adjusted profit before tax (PBT)[1] as well as a set of individual non-financial objectives that directly align to what is required to deliver the transformation plan. Based on the assessment of performance against targets, the achievement of the financial element is 75% of maximum.

In 2018, under the leadership of Jon Lewis, the Group reported adjusted profit before tax ahead of expectations. Jon oversaw a strategic review of the business, built a new leadership team, and has shown highly effective and visible leadership. He has delivered significant progress in establishing a culture that places importance on integrity, transparency, accountability, collaboration and inclusion. The transformation of the business continues at pace and significant improvements have been delivered in efficiency and competitiveness. There was unanimous support for the decision to make an award to reflect the contribution that the new CEO has made to strengthening the business and positioning it for success. Based on this achievement, the Remuneration Committee has determined that the CEO should receive a bonus of 85% of the 200% opportunity, of which 50% is payable in shares vesting after three years and the remainder as cash and subject to the usual statutory deductions of tax and national insurance.

Nick Greatorex, the former CFO, delivered a very successful rights issue and completed the US debt negotiation. He also set up the programme that resulted in very strong performance against the cost-out target, which exceeded expectations, and delivered what was required to allow the launch of the finance transformation programme. The Remuneration Committee determined that Nick delivered against the personal element of his bonus in full, before leaving Capita on 30 September 2018. Therefore, the total bonus paid to Nick for the period to 30 September 2018 was 87.51% of the maximum of his pro-rated bonus opportunity.

1 Adjusted profit before tax before significant new contracts and restructuring.

Vesting of 2016 LTIP award

Vesting of the LTIP Award granted in 2016 was determined by a combination of earnings per share (EPS) and return on capital employed (ROCE) performance and absolute share price, all assessed over the three-year period to 31 December 2018. As the share price performance target was not met, these awards will lapse in full during 2019.

Pay decisions for 2018

Performance measures for 2018 LTIP award

Our corporate strategy aims to simplify and strengthen the business so that it is more focused and predictable – with improved returns, stronger client relationships and sustainable free cash flow. The Committee set five, equally weighted performance measures for the 2018 LTIP award which are directly aligned to successful delivery of this strategy. Any pay-out against these measures is subject to satisfaction of a general performance underpin focused on underlying and operational performance. The Committee can therefore, in its discretion, reduce the level of vesting from than that achieved based on the formulaic application of the five applicable performance measures alone.

The three financial measures (underpinned by financial/operational performance assessment) are key deliverables of the new strategy. The 'target' level of performance for each measure is stated on page 96 and reflects the targets stated in the April 2018 strategy announcement and rights issue prospectus:

- Annualised cost savings – part of Capita's new strategy involves improving cost competitiveness and operational efficiency, which includes reducing general and administrative expenses, centralising procurement, standardising and investing in processes and systems, and increasing the use of offshoring and automation. The Board is targeting annualised initial cost savings of £175m by the end of 2020 from these initiatives compared to the prior forecasted cost. If this was achieved, there would be a 50% vesting of this proportion of the award.
- Free cash flow – the successful implementation of the new strategy is expected to generate at least £200m of sustainable annual, post-tax free cash flow in 2020 before exceptional and restructuring charges, and additional pension contributions. If the free cash flow target is met, 50% of this proportion of the award would vest.
- EBIT margin – successful delivery of the strategy is expected to deliver a double-digit EBIT margin within three years, which would result in at least 50% vesting of this proportion of the award. The EBIT margin range has been set between 9% to 12%.

To complement the financial measures, the LTIP awards are also subject to two key non-financial deliverables of the new strategy (again underpinned by financial/operational performance assessment) in order to drive cultural change and emphasise their importance to management, employees and other stakeholders:

- Customer satisfaction – client demands are changing with fewer long-term, large-scale deals and more incremental sales on existing contracts, or smaller new contracts in which companies prove their value and grow over time. Improving the client experience is therefore fundamental to Capita's long-term success. The customer net promoter score is used to assess this metric. A threshold target of a six-point positive swing in the customer net promoter score would allow for a 25% vesting of this proportion of the award. The maximum would vest if there was a 12-point positive swing in customer net promoter score.
- Employee engagement – a key focus of the new strategy is improving culture and engagement across all levels of the organisation and producing better aligned behaviour around winning and execution of contracts. The employee net promoter score is used to assess this metric. If a six-point positive swing in employee net promoter score was achieved, 25% of this proportion of the award would vest. The maximum would vest, if there was a 12-point positive swing in employee net promoter score.

For both of these non-financial measures, the Remuneration Committee has set targets that require significant improvement over the three-year performance period.

Directors' remuneration report continued

Pay decisions for 2019

Base salaries

Base salary for Jon Lewis is fixed at £725,000 and will be reviewed in 2021. Patrick Butcher's base salary of £430,000 will be reviewed in 2020 and annually thereafter.

Annual bonus

The Remuneration Committee has reviewed the annual bonus plan to ensure it continues to align with the Group's transformation programme. As there has been no material change in our new corporate strategy, the structure of the proposed financial performance measures for the 2019 annual bonus remains broadly unchanged, although some minor adjustments have been made. For 2019 there is no cost-out target and organic revenue growth is being included. This reflects the momentum gained on transformation in 2018, and the need to shift the focus to organic revenue growth and profit improvement. The non-financial performance measures support the delivery of our three strategic pillars which are simplify, strengthen and succeed. Adjusted PBT, free cash flow, organic revenue growth and strategic/personal targets will be stretching for the 2019 financial year. The Committee deems the specific details of the performance measures and targets to be commercially sensitive, as they are directly linked to the forward-looking strategic plans of the business. Full disclosure will be provided in the Annual Report on Remuneration for 2019, provided these details are no longer considered sensitive.

The maximum bonus opportunity will remain at 200% of salary for Jon Lewis, and Patrick Butcher will have a maximum bonus opportunity of 175% of salary, which is a reduction to the prior CFO maximum of 200% of salary. The split between Group financial metrics and personal and strategic measures will be two-thirds financial and one-third non-financial which represents a greater weighting on financial measures compared to 2018. Any bonus pay-outs will be conditional upon Capita achieving an adjusted PBT underpin target. If warranted by the circumstances at the time, the Remuneration Committee may consider exercising its discretion in relation to bonus pay-outs.

Performance measures for 2019 LTIP award

As there has been no further material change in our new corporate strategy, the structure of the proposed performance measures for 2019 LTIP awards remains broadly unchanged from that used for 2018 LTIP awards. However, our proposal does contain three changes, which were informed by feedback from shareholders:

Addition of organic revenue growth as a performance measure

As outlined in our April 2018 strategy update, Capita's reported growth has been largely driven by acquisitions and organic growth has had less emphasis. A return to stronger organic revenue growth is an important goal in the next phase of our business transformation and accordingly has been added as a performance measure for the 2019 LTIP award cycle.

Removal of annualised cost savings as a performance measure

Business simplification is a key element of the initial phase of our strategic transformation. As we expect 2020 to represent the end of the initial simplification phase, we have concluded that it would be inappropriate to retain cost savings as a performance measure for the 2019 LTIP award where the performance period runs to the end of 2021. This change also avoids the risk of executives potentially being rewarded twice for delivery of the same cost savings.

Reduction of the weighting for customer and employee performance measures

When we consulted with shareholders about the 2018 LTIP award, there was widespread support for our use of customer and employee measures as being fundamental to Capita's long-term success. However, some shareholders expressed concern about the proportion of the award subject to these non-financial measures (notwithstanding the performance underpin which looks at underlying financial and operational performance). Recognising these concerns, the Committee has reduced the weighting on customer/employee measures to 25% of the 2019 LTIP award (2018:40%), with the proportion to be reviewed again for future awards.

Performance underpin	Performance measure	Weighting 2018 LTIP award	2019 LTIP award
Assessment of the underlying financial and operational performance of Capita over the performance period.	Free cash flow	20%	25%
	EBIT margin	20%	25%
	Organic revenue growth	–	25%
	Annualised cost savings	20%	–
	Customer satisfaction	20%	12.5%
	Employee engagement	20%	12.5%

Further details of the targets are on page 91. For awards made from 2019 onwards, there will be a requirement for Executive Directors to hold shares for an additional two-year period following the three-year performance period. Jon Lewis's LTIP award will be in respect of shares worth 300% of salary. Patrick Butcher's award will be worth 200% of salary (agreed as part of his appointment) and consistent with awards granted to his predecessor.

Shareholding guidelines

Following the decision in 2017 to increase the minimum shareholding guideline for Executive Directors, the minimum requirement is 200% of salary for the Chief Financial Officer and 300% for the Chief Executive Officer. Directors are expected to retain at least half of vested share awards (post-tax) until they are compliant with the guideline. The Committee is in the process of developing a post-employment shareholding policy which will be disclosed in the Annual Report 2019.

Shareholder views

During 2018, we consulted with our top 30 shareholders to obtain their views on the proposed performance measures and targets for the 2018 LTIP award. We received a wide range of feedback, which was helpful to the Committee in coming to the decision to implement the measures and targets as detailed on page 96. Further feedback from shareholders has been reflected in the measures and weightings for the 2019 LTIP, as set out above, which in consultation received strong support from major shareholders. Details of voting on remuneration resolutions at the AGM in June 2018 are set out on page 89.

I hope you will find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of this year's advisory vote to approve the Annual Report on Remuneration at the AGM (set out on pages 89–98). The Committee will continue to consult widely with shareholders to respond to their expectations of remuneration policy and reporting and welcomes feedback.

Committee Chair

I have informed the Board of my intention to step down as Chair of the Committee after three-and-a-half years, but will remain on the Board as a Non-Executive Director. I took up a new CEO role in 2018 and feel I can no longer provide Capita with the time and attention the Chair's role requires. I will remain as Chair until a replacement is appointed to ensure a smooth handover.

John Cresswell
Chair
Remuneration Committee
13 March 2019

Remuneration policy

At the AGM in June 2017 shareholders approved, with a 89.2% majority, the remuneration policy which sets out the Company's policy on the remuneration of Executive and Non-Executive Directors. The remuneration policy became effective from the conclusion of the AGM and will apply until 31 December 2020 unless a revised policy is approved by shareholders and comes into force before that date.

For the benefit of shareholders we have included the remuneration policy on the following pages. Textual changes have been made, where appropriate, to ensure the report is relevant within the context of this Directors' remuneration report. The original remuneration policy, as approved by shareholders, can be found in the Directors' remuneration report of the 2016 Annual Report & Accounts (which can be found in the Investors section of our website).

The Committee is responsible, on behalf of the Board, for establishing appropriate remuneration arrangements for the Chairman, Executive Directors, Executive Committee and Group Company Secretary. The remuneration of Non-Executive Directors is determined by the Board.

The information provided in this section of the remuneration report is not subject to audit.

Responsibilities and activities of the Remuneration Committee

The Committee is responsible for determining and agreeing with the Board the policy on Executive Directors' remuneration, including setting the over-arching principles, parameters and governance framework and determining the initial remuneration package of each Executive Director. In addition, the Committee monitors the structure and level of remuneration for the senior management team and, when setting remuneration Executive Directors, take into account workforce remuneration and alignment of incentives and rewards with culture.

In setting the remuneration policy for the Executive Directors, the Committee ensures that the arrangements are in the best interest of both the Group and its shareholders, by taking into account the following general principles:

- To ensure total remuneration packages are simple and fair in design so that they are valued by participants.
- To ensure that total remuneration is clear, predictable and highly performance orientated, without being excessive.
- To balance performance-related pay between the achievement of financial performance objectives and delivering sustainable performance; creating a clear connection between performance and reward and providing a focus on sustained improvements in profitability and returns.
- To provide a significant proportion of performance-linked pay in shares allowing senior management to build a significant shareholding in the business and, therefore, aligning management with shareholders' interests and the Group's performance, without encouraging excessive risk-taking.

Consideration of shareholder views

The Company is committed to maintaining good communications with investors. The Committee considers the AGM to be an opportunity to meet and communicate with investors, giving shareholders the opportunity to raise any issues or concerns they may have. In addition, the Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be proposed to the policy.

Directors' remuneration report continued

Remuneration policy table

The following table sets out the key aspects of the policy.

Base salaries

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
To attract and retain talent by ensuring base salaries are sufficiently competitive.	Normally reviewed annually in December, with any changes usually effective in January. The Committee may award salary increases at other times of the year if it considers it to be appropriate. The review takes into account: • Salaries in similar companies and comparably-sized companies • Remuneration Policy • Economic climate • Market conditions • Group performance • The role and responsibility of the individual Director • Employee remuneration across the broader workforce.	There is no prescribed maximum monetary annual increase to base salaries. Any annual increase in salaries is at the discretion of the Committee, taking into account the factors stated in this table and the following principles: • Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for the broader workforce. • Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). • Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.	Individual and business performance are considerations in setting base salaries.

Annual bonus and deferred annual bonus (DAB) Plan

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Performance measures are selected to focus Executives on delivery of the Group business plan for the financial year.	The bonus scheme is reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year. Performance against targets is reviewed following completion of the final accounts for the period under review. 50% of any bonus earned is normally delivered in shares deferred for three years under the DAB plan, with the remainder delivered in cash or Deferred Shares at the Executive Director's discretion. An additional payment may be made at the time of vesting in respect of dividends that would have accrued on Deferred Shares during the deferral period. Malus and clawback provisions apply to all annual bonus and DAB awards for a period of up to three years after the determination of the annual bonus.	Maximum opportunity of 200% of salary.	Executive Directors' performance is measured over a one-year period relative to challenging targets for selected measures of Group financial, strategic or individual performance. The majority of the bonus will be determined by measure(s) of Group financial performance. A sliding scale is set for each Group financial measure: 50% of the bonus will be paid at target performance, increasing to 100% for maximum performance. Any bonus pay-out is ultimately at the discretion of the Committee.

Long-term incentive plan (LTIP)

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Designed to reward and retain Executives over the longer term while aligning their interests with those of shareholders. To link reward to key longer-term business targets. To encourage share ownership.	LTIP awards are usually granted in the form of nil cost options. Award levels for each award are set by the Committee at a level appropriate, in the Committee's opinion, with the individual's performance and experience. Performance targets applying to LTIP awards are relevant to business plan priorities and aligned with shareholder interests. Vesting is dependent on the achievement of performance conditions usually measured over a three-year period. Awards from 2019 must be retained for a further two years after vesting. An additional payment may be made at the time of vesting in respect of dividends that would have accrued on LTIP awards during the vesting period. Malus and clawback provisions apply to all LTIP awards for a period up to the fifth anniversary of grant.	The maximum annual award permitted under the LTIP is shares with a market value (as determined by the Committee) of 300% of salary.	Performance is measured relative to selected measures of Group financial or share price performance, with the precise measures and weighting of the measures determined by the Committee ahead of each award. Performance targets are reviewed annually by the Committee and are set appropriate to the economic and political outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, while remaining realistic enough to motivate and incentivise management. 25% of the awards vest at a threshold vesting point, rising to 100% vesting at a maximum vesting point.

Benefits

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Designed to be consistent with benefits available to employees in the Group.	Benefits include car allowance, private medical insurance, travel and property hire. Executive Directors can also participate in all-employee share plans. The Committee has discretion to add additional benefits which are not currently provided, such as relocation expenses.	Benefit provision varies between different Executive Directors. While there is no maximum level set by the Committee, benefits provision will be set at a level the Committee considers appropriate and be based on individual circumstances. Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.	Not performance-related.

Pension

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Designed to be consistent with benefits available to employees in the Group.	Pension contributions are paid into the Group's defined contribution scheme and/or as a cash allowance.	5% of salary	Not performance-related.

Directors' remuneration report continued

Non-Executive Director (NED) fees

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Market competitive fees are set so as to attract and retain Non-Executive Directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities.	Reviewed periodically by the Board. Fee levels set by reference to market rates, taking into account the individual's experience, responsibilities, time commitment and pay decisions for the broader workforce. NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as: • Senior Independent Director • Audit Committee Chairman • Remuneration Committee Chairman. The Chairman of the Board receives an all-inclusive fee. No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit.	As for the Executive Directors, there is no prescribed maximum monetary annual increase. An aggregate annual sum of £1m increased only to take account of the effect of inflation as measured by the Retail Price Index or such index as the Directors consider appropriate or such other amount as the Company may by ordinary resolution decide.	Not performance-related.

Malus and clawback provisions apply to all incentive awards granted to Executive Directors. These provisions permit the Committee to recover bonus awards for up to three years after the determination of the annual bonus and up to the fifth anniversary of the grant of LTIP awards. The potential circumstances in which malus or clawback provisions can be applied include a material misstatement of the Group's financial results, if an individual deliberately misleads relevant parties regarding financial performance or if their actions cause reputational damage or amount to serious misconduct or conduct which causes significant financial loss.

The annual bonus performance measures are Group financial, strategic or individual measures which are selected annually so as to be consistent with key priorities for the Group.

The LTIP performance measures are chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company.

Targets are set on sliding scales that take account of internal strategic planning and external market expectations for the Company. Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial outperformance of challenging strategic plans approved at the start of each year.

Share incentive plans incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests up to the time of vesting/release. This amount may be calculated assuming that the dividends have been re-invested in the Company's shares on a cumulative basis.

The Committee operates incentive arrangements for the Executive Directors in accordance with their respective rules, the Listing Rules and the HMRC rules where relevant. The Committee, consistent with market practice and the scheme rules, retains discretion over a number of areas relating to the operation and administration of the plans. These include (but are not limited to) the following:

- Who participates
- The form in which the award is granted and settled (e.g. shares, nil cost options, cash)
- The timing of the grant of award and/or payment
- The size of an award (up to individual and plan limits) and/or a payment
- Discretion relating to the measurement of performance in the event of a 'good leaver' scenario or a change of control or reconstruction of the Company
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes
- Adjustments required in certain circumstances (e.g. share capital variation, rights issues, demerger, corporate restructuring, special dividends)
- The ability to vary or substitute any performance condition(s) if circumstances occur which cause it to determine that the original condition(s) have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). In the event that the Committee were to make an adjustment of this sort, a full explanation would be provided in the next remuneration report.

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed: (i) before the 2014 AGM (when the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

The Committee may make minor amendments to the policy set out in this Policy Report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Application of our remuneration policy

When determining Executive Director remuneration policy and practices, the Committee reviews workforce remuneration and related polices and the alignment of incentives and rewards with culture.

LTIP awards are granted across the senior management population in order to encourage a high level of employee share ownership. While vesting of regular LTIP awards made to Executive Directors is always subject to performance conditions, awards to other senior management may, where appropriate (such as to assist in retention of key talent), be subject only to continued employment. Another key difference in the policy for Executive Directors is that remuneration is more heavily weighted towards long-term variable pay than other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors. The Committee did not formally consult with employees in respect of the design of the policy, although the Committee will keep this under review.

Directors' recruitment and promotions

The Committee takes into account the need to attract, retain and motivate the best person for each position, while at the same time ensuring a close alignment between the interests of shareholders and management.

If a new Executive Director were to be appointed, the Committee would seek to align their remuneration package with other Executive Directors in line with the policy table. However, flexibility would be retained to offer additional remuneration on appointment outside the policy if the Committee believe it may be appropriate to make 'buy-out' awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer. The Committee would look to replicate the arrangements being forfeited as closely as possible and in doing so, would take account of relevant factors including the nature of the remuneration and contractual terms, performance conditions and the time over which they would have vested or been paid.

The Committee would seek to structure awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the Committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2. If appropriate, a new appointee's incentives in their year of joining may be subject to different targets to other Executive Directors. The Committee may also agree that the Company will meet certain relocation and incidental expenses as it considers appropriate.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new Executive Directors in the year of recruitment shall be limited to 500% of salary (the maximum limit allowed within the policy table).

The initial notice period for a service contract may be up to 24 months, which is longer than the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

For an internal appointment or an appointment following the Company's acquisition of or merger with another company, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations or terms and conditions existing prior to appointment may continue.

The Committee retains discretion to make appropriate remuneration decisions outside the standard Policy to meet the individual circumstances of recruitment when:

- An interim appointment is made to fill an Executive Director role on a short-term basis.
- Exceptional circumstances require that the chairman or a Non-Executive Director takes on an executive function on a short-term basis.

In the event of the appointment of a new Non-Executive Director, remuneration arrangements will normally be in line with the structure set out in the policy table for Non-Executive Directors. However, the Committee (or the Board as appropriate) may include any element listed in the policy table or any other element which the Committee considers is appropriate given the particular circumstances excluding any variable elements, with due regard to the best interests of shareholders.

Directors' service agreements and payments for loss of office

The Committee regularly reviews the contractual terms of the service agreement to ensure these reflect best practice.

The service contracts for Executive Directors are for an indefinite period and provide for a 12-month notice period. They do not include provisions for predetermined compensation on termination that exceed 12-months' salary, pension and benefits. There are no arrangements in place between the Company and its Directors that provide for compensation for loss of office following a takeover bid. All Directors are appointed for an indefinite period but are subject to annual re-election at the annual general meeting.

In circumstances of termination on notice, the Committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The Committee reserves the right to make payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment. The Committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the Director on garden leave for the notice period.

Directors' remuneration report continued

The annual bonus may be payable in respect of the period of the bonus plan year worked by the Director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. The Remuneration Committee has some discretion on bonus pay-outs.

DAB deferred shares will vest on the date of leaving, other than in circumstances of dismissal for gross misconduct.

For entitlement to unvested LTIP shares, the rules contain discretionary provisions setting out the treatment of awards where a participant leaves for designated reasons (i.e. participants who leave early on account of injury, disability or ill health, death, a sale of their employer or business in which they were employed, statutory redundancy or any other reason at the discretion of the Committee). In these circumstances, a participant's awards will not be forfeited on cessation of employment and instead will continue to vest on the normal vesting date or earlier at the discretion of the Committee, subject to the performance conditions attached to the relevant awards. The awards will, other than in exceptional circumstances, be scaled back on a time pro-rated basis.

In the event of a change of control, all unvested LTIP awards would vest, to the extent that any performance conditions attached to the relevant awards have been achieved. LTIP awards will, other than if the Committee determines otherwise, be scaled back pro rata for the proportion of the performance period worked by the Director prior to the change of control. Unvested DAB deferred shares would vest in the event of a change of control.

Non-Executive Directors' terms of engagement

Non-Executive Directors are appointed by letter of appointment for an initial period of three years. Each appointment is terminable by three months' notice on either side. At the end of the initial period, the appointment may be renewed by mutual consent, subject to annual re-election at the AGM.

The service agreements and Non-Executive Directors' letters of appointment are available for inspection during normal business hours at the Company's registered office, and available for inspection at the AGM.

Annual Report on Remuneration

This part of the remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2019 AGM. The information on pages 92–97 has been audited as indicated.

External advice received

Deloitte LLP was, following a review, appointed by the Remuneration Committee during 2012 to provide advice on Executive remuneration matters. During the year, the Committee received independent and objective advice from Deloitte primarily on market practice, disclosure within the accounts and stakeholder liaison. Deloitte was paid £160,100 in fees during 2018 for these services (charged on a time plus expenses basis). The Committee considers Deloitte's advice on remuneration to be independent and objective, and notes that Deloitte is a founding member of the Remuneration Consultants Group. As such, Deloitte operates voluntarily under the code of conduct in relation to Executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the Executive remuneration practice, have provided services to the Group in respect of tax, property, advice to internal audit and other ad hoc advisory projects during the year.

The fees were considered appropriate for the work undertaken. Where appropriate, fees were tendered with other providers to ensure that the fees were in line with market practice and standards.

The Committee also consulted with Jon Lewis to provide further information to the Committee on the performance and proposed remuneration for the Chief Financial Officer and other senior management, but not in relation to his own remuneration.

Shareholder voting at the AGM

The 2018 Directors' remuneration report will be presented to shareholders at the annual general meeting in May 2019. At the AGM in 2018, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2017 was as set out below. Details of the last shareholder vote on our remuneration policy are also set out below.

	Votes cast 'for'	Votes cast 'against'	Abstentions[1]
Remuneration report: for the year ended 31 December 2017	1,268m	13.8m	3.61m
	98.9%	1.1%	–
Remuneration policy: voted on in June 2017	503.9m	60.8m	0.09m
	89.2%	10.8%	–

1 A vote abstained is not a vote in law and is not counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

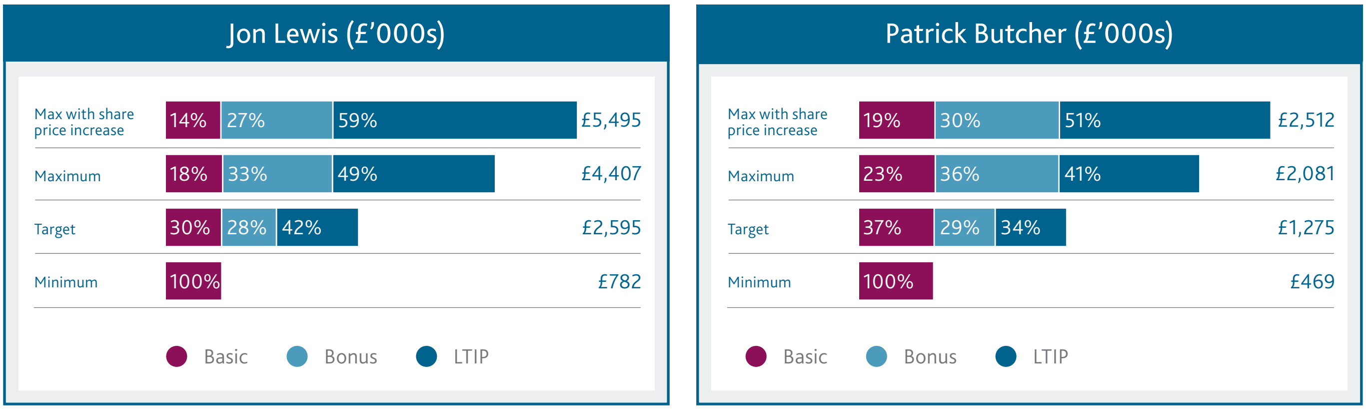
Directors' remuneration report continued

Statement of implementation of the remuneration policy for 2019

The value and composition of the Executive Directors' remuneration packages under the policy for the year ending 31 December 2019 at a minimum, target and maximum performance level are set out in the charts below.

The charts are for illustrative purposes only and actual outcomes may differ from that shown.

Each chart is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP.



Basic includes the base salary, benefits and pension (i.e. the fixed elements of remuneration).

Notes

The scenarios in the above charts are defined as follows:

	Minimum	Performance in line with expectations (target)	Maximum
Fixed elements of remuneration	Base salary at 1 January 2019 Estimated value of benefits provided under the remuneration policy 5% of salary pension provision		
Annual bonus: pay-out shown as a maximum opportunity	0%	50% of maximum	100% of maximum
LTIP: pay-out shown as a maximum opportunity	0%	50% of maximum	100% of maximum

As set out in the policy table above, the maximum permitted annual bonus opportunity is 200% of salary and the maximum permitted LTIP award is 300% of salary. The charts above reflect the maximum bonus (200% of salary for the CEO and 175% of salary for the CFO) and maximum LTIP award (300% of salary for the CEO and 200% of salary for the CFO) that could be earned in 2019. The maximum that can be earned by the CFO in 2019 is lower than the maximum permitted under the policy.

In these charts, deferred shares are presented within the bonus and dividend equivalents have been excluded.

In these charts, LTIP awards have been shown both at face value with no share price growth and a 50% share price growth across the performance period under the maximum scenario.

All-employee share plans have been excluded.

Base salary

Base salary for Jon Lewis is unchanged and fixed at £725,000 until 1 January 2021. Patrick Butcher joined Capita on 10 December 2018 and the Board on 1 January 2019; his salary is £430,000.

Accordingly, base salaries for 2019 are:

	Base salary from 1 January 2019
Jon Lewis	£725,000
Patrick Butcher	£430,000

Fees for the Chairman and Non-Executive Directors

A summary of the fees for 2019 are as follows:

	Fee from 1 January 2019 or date of appointment
Sir Ian Powell, Chairman	£325,000
Gillian Sheldon, Senior Independent Director	£75,000
Matthew Lester, Audit and Risk Committee Chairman[1]	£75,000
John Cresswell, Remuneration Committee Chairman[1]	£75,000
Andrew Williams	£64,500
Baroness Lucy Neville-Rolfe	£64,500

1 Chairmen of Committees have had a fee increase from £64,500 following a review of the time commitment associated with these roles. Other Non-Executive Directors' fees are unchanged.

At the 2019 AGM, shareholders will be asked to approve the election and remuneration of two Employee Directors. They will receive a basic fee of £64,500 each and further details of their remuneration will be set out in an explanatory memorandum which will be available 15 days before the AGM on the Company's website and at the Company's registered office, and will be available for inspection at the AGM itself.

Annual bonus for 2019

The CEO's maximum bonus opportunity for 2019 will be 200% of base salary and the CFO's maximum bonus opportunity for 2019 will be 175% of base salary, with 50% of any bonus normally deferred into shares for three years.

As explained in the Remuneration Committee Chairman's statement, the Executive Director bonus plan for 2019 continues to align with the transformation plan, with a combination of financial and individual non-financial objectives that support the delivery of our strategy. Accordingly, the following weightings and measures have been agreed by the Committee:

	Weighting	
	Jon Lewis	Patrick Butcher
Group financial performance measures	67% (Adjusted PBT, free cash flow, organic revenue growth)	67% (Adjusted PBT, free cash flow, organic revenue growth)
Group strategic and individual performance measures	33%	33%

The Remuneration Committee may consider exercising discretion on annual bonus pay-outs. No payment would be made if Capita failed to achieve an adjusted PBT target for 2019.

Details of the Group strategic and individual performance measures and the targets for the Group financial performance measures are considered commercially sensitive by the Board and so will be disclosed retrospectively in the 2019 remuneration report.

Any bonus payments will be subject to malus and clawback provisions as outlined in the Directors' remuneration policy.

Long-term incentive to be granted in 2019

Awards will be granted over shares worth 300% of salary to Jon Lewis and worth 200% of salary to Patrick Butcher. Awards will vest subject to (i) assessment by the Remuneration Committee of the underlying financial and operational performance of Capita over the three-year period to 31 December 2021 (the 'underpin'), and (ii) subject to satisfaction of the underpin, organic revenue growth, free cash flow, margin enhancement, customer satisfaction and employee engagement performance over the same three-year period to 31 December 2021.

Performance measures, weighting and targets for the 2019 LTIP award, and the performance underpin, are as follows:

Performance underpin	Performance measure	Weighting	Threshold	Target	Stretch
			(25% vests)	(50% vests)	(100% vests)
Assessment of the underlying financial and operational performance of Capita over the performance period	Free cash flow[1]	25%	£190m	£210m	£250m
	EBIT margin[1]	25%	9%	10%	12%
	Organic revenue growth[1]	25%	£3,900m	£3,950m	£4,050m
	Customer satisfaction	12.5%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS
	Employee engagement	12.5%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS

1 For the financial year 2021.
The Committee has actively considered how it may ensure executives do not benefit from share price volatility in the timing of the 2019 LTIP award, and the implications for ensuring future gains are reflective of underlying performance. The Committee has therefore decided that the number of shares in the 2019 LTIP award will be calculated using the higher of either the closing price on the day immediately prior to the award,or the post-rights issue price of 122.08p.
As stated in the notes to the Policy table, the Committee retains discretion to make adjustments required in certain circumstances including varying the performance conditions if circumstances occur which cause it to determine that the original conditions have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). In the event that the Committee were to make an adjustment of this sort, a full explanation would be provided in the next remuneration report.
The Committee also has a general discretion to override formulaic outcomes in line with the changes to the UK Corporate Governance Code.
Any vested LTIP awards will be subject to malus and clawback provisions as outlined in the Directors' Remuneration Policy.
The net number of shares received on vesting of LTIP awards will be subject to an additional two-year holding period after the initial three-year vesting period.

Directors' remuneration report continued

Directors' remuneration earned in 2018 – single-figure table (audited)

The table below summarises Directors' remuneration received in 2018.

Single figure remuneration

		Base salary and fees	Benefits	Pension or Pension Allowance	Annual Bonus[4]	LTIP	Total Remuneration
Ian Powell	2018	325,000	347	—	—	—	325,347
	2017	325,000	216	—	—	—	325,216
Jon Lewis[1]	2018	725,000	24,809	36,250	1,228,150	—	2,014,209
	2017	60,417	41,216	3,021	—	—	104,654
Gillian Sheldon	2018	75,000	153	—	—	—	75,153
	2017	75,000	216	—	—	—	75,216
Matthew Lester	2018	64,500	770	—	—	—	65,270
	2017	53,750	216	—	—	—	53,966
John Cresswell	2018	64,500	229	—	—	—	64,729
	2017	64,500	216	—	—	—	64,716
Andrew Williams	2018	64,500	154	—	—	—	64,654
	2017	64,500	—	—	—	—	64,500
Baroness Lucy Neville-Rolfe	2018	64,500	13	—	—	—	64,513
	2017	4,607	—	—	—	—	4,607
Nick Greatorex[2,3,5]	2018	307,500	25,543	15,375	538,125	—	886,543
	2017	454,048	30,163	20,500	—	—	504,711
Chris Sellers[3,5]	2018	30,000	5,555	1,500	—	—	37,055
	2017	360,000	83,714	18,000	—	—	461,714

1 Jon Lewis was appointed Chief Executive Officer on 1 December 2017. He is also a Non-Executive Director of Equinor ASA and received and retained a fee of NOK 212,623.
2 Nick Greatorex was appointed interim CEO in respect of the period from 16 September 2017 to 30 November 2017 and was paid an allowance of £12,500 per month in respect of his additional responsibilities up to 31 December 2017 (including a one-month handover period to Jon Lewis). This is reflected in the 2017 figure for base salary.
3 Chris Sellers and Nick Greatorex stepped down from the Board on 23 January 2018 and 30 September 2018 respectively. Amounts shown in the table for Chris Sellers and Nick Greatorex relate to the period of time during which they served as Directors.
4 50% of Jon Lewis's bonus will be deferred into shares under the Deferred Annual Bonus Plan.
5 2017 comparatives updated to present the value of the final matching shares award under the UK all-employee scheme for Nick Greatorex £279 and Chris Sellers £310.

For 2017, in addition to the amounts noted above, total remuneration was also paid to the following Directors who left during 2017: Paul Bowtell £27,091; Andy Parker £494,070; and Vic Gysin £416,931.

Base salary includes base salary plus fixed cash allowances which are a normal part of the fixed remuneration package and usual local practice. Benefits include all taxable benefits as defined by paragraph 11(1) of Schedule 8 to the Accounts regulations. This includes private medical insurance, company car allowance, work travel, accommodation and the value of matching awards under the UK all-employee scheme. In 2017, for Jon Lewis, this figure also included one-off legal fees associated with the negotiation of his service contract. Employee entertainment has also been included under benefits and in some cases this cost will be for more than the individual Director themselves.

Performance targets for the 2016 LTIP awards were, for awards of more than 20,000 shares, EPS growth of 6% (18.75% vest) to 12% (75% vest), average ROCE 14% (6.25% vest) to 16% (25% vest) over the three-year period to 31 December 2018 and average share price at vesting must not be lower than at grant. For awards of 12,001 to 20,000 shares and awards up to 12,000 shares the targets were identical except that 50% and 75%, respectively, of the award would vest at 6% EPS. As the share price at vesting was lower than grant, the award did not vest.

No Director waived any fees or salary for 2018.

Patrick Butcher commenced employment with Capita on 10 December 2018 and became an Executive Director on 1 January 2019; accordingly, he has not been included in the single figure table for 2018.

Annual bonus for 2018 (audited)

The maximum annual bonus for the Executive Directors that could be earned in relation to 2018 performance was 200% of salary (unchanged from 2017).

The annual bonus that could be paid to Executive Directors in respect of 2018 performance was determined by a combination of Group financial performance alongside an adjusted PBT threshold target underpin and Executive Directors' personal contributions. For Jon Lewis, the split between Group financial metrics and personal and strategic measures was 60:40 and for Nick Greatorex it was 50:50. 50% of the bonus was payable for achieving target performance with 100% payable for achieving the maximum target. 25% of bonus was payable for achieving the threshold target.

The table below illustrates the components of the financial metrics at maximum and actual pay-outs for the targets set for the period to 31 December 2018. There is a straight-line outcome calculation between the threshold target and on-target performance and between on-target and maximum performance. Actual adjusted PBT of £282.1m exceeded the threshold underpin of £245m and therefore based on the assessment of performance against the targets, the achievement on the financial element is 75% of maximum.

	Financial performance weighting	Threshold target performance (25%)	On-target performance (50%)	Maximum performance (100%)	Actual performance and bonus pay-out	Achievement against measure (% maximum opportunity for this measure)
Adjusted profit before tax (pre bonus and includes disposals/ HfS businesses)	50%	£245m	£275m	£297.5m	£282.1m	66%
Free cash flow (adjusted cash position)	25%	£1m	£21m	£41m	£27.5m[1]	66%
Cost-out	25%	£69.9m	£80.0m	£120m	£120m	100%
Financial metrics bonus pay-out						75%

1 Adjusted free cash flow changed for earlier-than-planned clearance of non-recourse trade receivables financing.

In respect of 2018, 40% of Jon Lewis's annual bonus was payable on three equally weighted personal and strategic objectives set on joining Capita which were:

Objective	Delivery	Weighting	Percentage achieved
Completing a full strategic review – deliver a Board agreed strategy and three-year plans for the business by September 2018	In the absence of any prior strategy, and in order to secure a rights issue necessary to address the balance sheet issues discovered upon his arrival at Capita, Jon undertook a strategic review of the business that resulted in Board approval of our simplify, strengthen and succeed strategy, components of which include: • The definition of our five growth platforms; and a portfolio of non-core (value maximisation) businesses, managed within Specialist Services. • A set of unambiguous financial commitments for 2020. • Divisional strategic imperatives that focus leadership efforts and guide resource allocation. • Completion of key disposals to further strengthen the balance sheet. Jon successfully communicated the strategy to employees (the 2018 internal survey found that 81% understood our strategy). The strategy and its associated rights issue, together with the necessary focus on operational imperatives in 2018, have created a much-needed stable foundation on which to embark on the next phase of strategic simplification and focus, which will be undertaken in 2019. There has been positive evolution of the share register, as our strategy is now shaping the markets we focus upon and the allocation of resources to grow the business. The Remuneration Committee deemed performance to exceed expectation for the first 12 months in role and so awarded the maximum achievement to the non-financial element relating to this objective.	13.34%	100%
Driving cultural change – through behaviour and leadership demonstrate positive impact on the values and culture of the Company across the year	The Committee deemed performance to be very strong. Jon has shown highly effective and visible leadership throughout 2018 and over the course of the last 12 months has delivered significant progress in establishing a culture that places importance on integrity, transparency, accountability, collaboration and inclusion. Changes in the executive team and a new approach to managing business reviews was implemented and embedded alongside high levels of engagement with wider stakeholders including employees, suppliers and partners. A new purpose, refreshed values with underpinning behaviours, a revised code of conduct and several new governance and leadership forums have been established which operationalise the culture change being driven from the top. Recent survey results indicate 94% of employees feel they can ask Jon any question, which speaks to a culture of trust. The improvement in the Hampton-Alexander gender diversity rankings year-on-year (from below 200 in 2017 up to 110 and a green status for the first time in 2018). All stakeholders (including clients and external bodies) are now voicing recognition of a reforming Capita. Based on Jon's achievement, the Remuneration Committee has awarded the maximum achievement to the non-financial element relating to this objective.	13.33%	100%
Building the leadership team – restructure the senior management team and bring in top team as appropriate	Jon took decisive action very early on, regarding changes required in the executive team. Proven capability was brought into Capita within the first month to ensure the business had the expertise necessary to address operational imperatives, define strategy and launch the rights issue. Through the year, and shaped by the new strategy, Jon built an experienced Executive Committee (which included seven new roles) with the required professional competencies, values and behaviours necessary to create a collegiate and effective team. Members of the executive team are making a material contribution, have been well received by the broader organisation, including by the Board, and are working well as a team under Jon's leadership. Stakeholders (internal and external) recognise the strength of team now in place. The Remuneration Committee deemed performance to be very strong and awarded the maximum achievement to the non-financial element relating to this objective.	13.33%	100%

Directors' remuneration report continued

The Remuneration Committee has determined that Jon Lewis has achieved the full 40% of his personal and strategic measures. Therefore, the total bonus paid to Jon Lewis for the period to 31 December 2018 was 85% (£1,228,150) of the maximum bonus opportunity, of which £614,075 will be deferred into the shares to be held for three years under the Deferred Annual Bonus Plan. The remainder will be paid as cash, subject to the usual statutory deductions of tax and national insurance.

In respect of 2018, 50% of Nick Greatorex's annual bonus was payable on four equally weighted strategic and personal objectives which are listed below:

- Complete rights issue in 2018 raising £701m from investors including five-year planning, strategy and investor roadshow.
- Complete the US PP debt renegotiation in 2018 prior to the launch of the rights issue, including the covenant changes as required by IFRS 15 and the pre-approval of the divestment programme.
- Set up and lead the cost competitiveness workstream of the transformation programme to deliver the 2018 cost programme, delivering the £70m cost savings set out in the rights issue.
- Ensure the finance transformation programme receives a satisfactory internal audit rating in 2018 and the key milestones for 2018 remain on track for a November 2019 go-live date.

Nick delivered a very successful rights issue, completed the US debt negotiation, set up the programme that resulted in very strong performance against the cost-out target that exceeded expectation, and delivered what was required to allow the launch of the finance transformation programme. The Remuneration Committee has determined that Nick Greatorex achieved the full 50% of his personal and strategic measures before leaving Capita on 30 September 2018. Therefore, the total bonus paid in cash with no deferral to Nick Greatorex for the period to 30 September 2018 was 87.51% (£538,125) of his pro-rated maximum bonus opportunity.

Long-term incentive awards in 2018 (audited)

	Number of shares			
Name of Director	LTIP award	LTIP award following rights issue adjustment	(£) Face value of LTIP award[1]	Percentage of salary[2]
Jon Lewis	1,202,986	1,972,776	2,175,000	300%
Nick Greatorex	453,539	743,758	820,000	200%

1 The date of the grant was 24 April 2018. The closing price on the preceding day of £1.8080 was used to determine the number of shares.
2 Percentage calculated using base salary as at date of award (Jon Lewis – £725,000; Nick Greatorex – £410,000).

LTIP awards are granted as nil-cost options and awarded as a percentage of salary. Awards will vest three years from the date of grant subject to (i) assessment by the Remuneration Committee of the underlying financial and operational performance of Capita over the three-year period to 31 December 2020 (the 'underpin'), and (ii) subject to satisfaction of the underpin, annualised cost savings, free cash flow, margin enhancement, customer satisfaction and employee engagement performance over the same three-year period to 31 December 2020. 25% of LTIP awards vest for achieving threshold performance. Performance targets for the 2018 award were set following consultation with major shareholders. Full details of the performance conditions relating to these awards are outlined on page 96.

Buy-out remuneration awards in 2018

	Number of shares	
Name of Director	2018 award	Total
Patrick Butcher	288,078	288,078

1 The date of the grant was 11 December 2018. The closing price on the preceding day of £1.06 was used to determine the number of shares.

Patrick Butcher was granted a buy-out award under the LTIP as part of his remuneration package on appointment, which will vest in two tranches – 15 November 2019 and 15 November 2021 – subject to continued employment. The award is equal to the value of 6,770 Go-Ahead Group plc shares on 10 December 2018, using their close price of £15.80, and £198,398 representing the value of his forfeited deferred share award which were subject to continued employment.

Directors' interests and shareholding guidelines (audited)

In line with the new remuneration policy approved in 2017, Executive Directors are expected to hold 200% (300% for the Chief Executive Officer) of salary in shares in the Company. This must be built up over a period of five years from appointment. The guidelines include shares held beneficially and also shares within the DAB that have been deferred over the three-year period. Any shares in the DAB used for this are calculated net of tax. Share awards that are subject to performance conditions are not included.

Directors' interests and shareholding guidelines (audited)

Director	Beneficially held interests at 31 December 2018[3]	Beneficially held interests at 31 December 2017[3]	Interests in share incentive schemes, awarded without performance conditions at 31 December 2018	Interests in share incentive schemes, awarded without performance conditions at 31 December 2017	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2018	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2017	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2018	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2017	Percentage of shareholding target requirement at 31 December 2018	Percentage of shareholding target requirement at 31 December 2018 – based on cost of investment
Ian Powell	30,000	8,400	—	—	—	—	—	—	—	—
Jon Lewis	402,030	—	—	—	1,972,776	—	—	—	21%	21%
Gillian Sheldon	12,500	3,000	—	—	—	—	—	—	—	—
Matthew Lester	21,745	8,698	—	—	—	—	—	—	—	—
John Cresswell	10,500	3,000	—	—	—	—	—	—	—	—
Andrew Williams	100,000	10,000	—	—	—	—	—	—	—	—
Lucy Neville-Rolfe	13,842	—	—	—	—	—	—	—	—	—
Nick Greatorex[1, 4]	54,426	21,125	28,057	17,109	1,176,789	337,726	—	—	—	—
Chris Sellers[2, 4]	21,380	21,337	—	—	259,943	259,943	—	—	—	—

1 Stepped down from the Board on 30 September 2018.
2 Stepped down from the Board on 23 January 2018.
3 Beneficially held interests includes those held by connected persons.
4 2018 interests are shown as at date of resignation from the Board.

Between the end of the financial year and 13 March 2019, Jon Lewis acquired 437 shares under the Capita UK all-employee share incentive plan, increasing their beneficial interest in ordinary shares of the Company to 402,467.

Share plans (audited)

Plan name: deferred annual bonus (DAB) plan

Deferred award – this is the deferred element of an individual's bonus. Any deferral is made on a gross basis into deferred shares or as a net restricted share award. The deferred shares are held for a period of three years from the date of award. This part is not subject to performance conditions. As no bonus was awarded in 2017 and 2018, there is no corresponding DAB deferred award.

Unvested DAB deferred/restricted awards at 31 December 2018

	Number of shares			
Name of Director	2016 award	2017 award[1]	2018 award[1]	Total
Jon Lewis	N/A	N/A	N/A	N/A
Nick Greatorex[2]	28,057	N/A	N/A	28,057

1 No bonus was awarded in 2017 and 2018 (in respect of 2016 and 2017 performance) therefore no deferred award was made.
2 Figures as at date of resignation from Board (30 September 2018) and adjusted to reflect the effect of the rights issue.

Plan name: long-term incentive plan (2017 LTIP)

At the annual general meeting in 2017, the LTIP was approved by shareholders. Under the plan rules the Committee can award up to three times salary.

The vesting of awards will depend on performance measured over a three-year period.

Unvested LTIP awards at 31 December 2018

	Number of shares			
Name of Director	2016 award	2017 award	2018 award	Total
Jon Lewis	N/A	N/A	1,972,776	1,972,776
Nick Greatorex[1]	165,278	267,753	743,758	1,176,789
Chris Sellers[2]	88,685	261,222	N/A	349,907

LTIP figures for each Executive Director have been adjusted to reflect the effect of the rights issue.

1 Figures at date of resignation from Board (30 September 2018).
2 Figures at date of resignation from Board (23 January 2018) before any pro-rata reductions.

Capita adopted IFRS 15 Revenue from Contracts with Customers with effect from 1 January 2017, resulting in revenue and profits being recognised later across the life of many contracts, with potentially lower profits or losses in the early years of contracts and potentially higher profits in later years. In light of this change, the Committee considered what, if any, adjustments should be made to the EPS and ROCE targets applicable to the outstanding LTIP awards granted 2017 and concluded this would be reviewed at the end of the performance period 31 December 2019 to ensure the position did not become materially easier to achieve under the new standard. The 2016 LTIP awards is subject to a share price underpin of £10.17 and therefore will not vest.

Directors' remuneration report continued

Unvested LTIP (buy-out) remuneration awards at 31 December 2018

	Number of shares	
Name of Director	2018 award	Total
Patrick Butcher	288,078	288,078

Patrick Butcher was granted a buy-out award as part of his remuneration package on appointment which will vest in two tranches, 15 November 2019 and 15 November 2021, subject to continued employment.

Performance criteria

2016

Performance measure	Performance condition
EPS – 75% of the award is measured on EPS growth	EPS growth: 6%–12% per annum Vesting percentage: 18.75%–75% of award Straight line vesting occurs between these points.
ROCE – 25% of the award is measured on average ROCE	Average ROCE: 14%–16% Vesting percentage: 6.25%–25% of award Straight-line vesting occurs between these points.
Share price underpin	Capita's average share price at the vesting date must not be below the share price at the date of grant (£10.17).

2017

Performance underpin	Performance measure	Performance condition
Assessment of the underlying financial and operational performance of Capita over the performance period.	EPS – 75% of the award is measured on EPS growth	EPS growth: 3%–8% per annum Vesting percentage: 18.75%–75% of award Straight-line vesting occurs between these points.
	ROCE – 25% of the award is measured on average ROCE	Average ROCE: 11%–15% Vesting percentage: 6.25%–25% of award Straight-line vesting occurs between these points.

2018

Performance underpin	Performance measure	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)
Assessment of the underlying financial and operational performance of Capita over the performance period.	Annualised cost savings	20%	£160m	£175m	£205m
	Free cash flow	20%	£180m	£200m	£240m
	EBIT margin	20%	9%	10%	12%
	Customer satisfaction	20%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS
	Employee engagement	20%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS

A straight-line vesting occurs between these points.

Satisfaction of options

When satisfying awards made under its share plans, the Company uses newly issued, treasury or purchased shares as appropriate.

Dilution

All awards are made under plans that incorporate the overall dilution limit of 10% in 10 years. The estimated dilution from existing awards, including Executive and all-employee share awards, was approximately 1.94% of the Company's share capital at 31 December 2018.

Executive Directors' service agreements

Details of the service agreements are set out below:

Executive Directors	Date of joining the Company	Notice period
Jon Lewis	1 December 2017	12 months
Patrick Butcher	10 December 2018	12 months

Non-Executive Directors' terms of engagement

In 2018, all Non-Executive Directors were considered to be independent of the Company.

Non-Executive Directors	Date of joining the Board	Expiry date of current appointment
Ian Powell	1 September 2016	31 December 2019
Gillian Sheldon	1 September 2012	31 August 2020
Andrew Williams	1 January 2015	31 December 2020
John Cresswell	17 November 2015	16 November 2021
Matthew Lester	1 March 2017	28 February 2020
Baroness Lucy Neville-Rolfe	6 December 2017	5 December 2020

Payments to former Directors (audited)

No payments (other than regular pension benefits commenced in previous years and legacy share plan maturities which were reported in previous years) were made during the year ended 31 December 2018 to any past Director of the Company.

The 2016 LTIP lapsed in full for Vic Gysin, Chris Sellers and Nick Greatorex.

As previously disclosed, Vic Gysin exercised his 2015 and 2016 DAB awards on leaving Capita and received a payment of £47,073. Nick Greatorex exercised his 2016 DAB award over 28,057 shares on leaving Capita and retained 14,843 shares (after sales for tax).

Payments for loss of office (audited)

Chris Sellers stepped down from the Board on 23 January 2018 and left Capita on 31 January 2018. The agreed termination comprises a payment in lieu of notice of £360,000 in respect of salary for his 12-month notice period, £4,500 in respect of accrued holiday entitlement and £250 in consideration for enhanced post-employment undertakings. The Remuneration Committee having exercised its discretion, Chris's outstanding LTIP awards (as detailed on page 95) will remain capable of vesting in accordance with the rules of the scheme, subject to achievement of applicable performance measures and, where relevant, reduced pro-rata to reflect Chris' period of employment (including the notice period) as a proportion of each award's three-year vesting period. His 2016 LTIP award did not vest and lapsed in full. Up to £16,000 (excluding VAT) will be paid directly to third-party service providers in respect of: (i) legal services relating to Chris' settlement; and (ii) outplacement and training services, and he will continue to receive life assurance cover (reduced to a level of two times base salary) and private medical insurance cover consistent with current levels until 31 January 2019.

Nick Greatorex stepped down from the Board and left Capita on 30 September 2018 following market announcements on 18 July 2018 and 22 August 2018. Nick Greatorex will receive the payments set out below (less any required tax withholdings). The payments are in full and final settlement of all claims against the Company and are in accordance with the Company's remuneration policy and where relevant, his service agreement. The agreed termination arrangement comprises payment in lieu of notice of notice of £445,500 in respect of salary and benefits including pension for his 12-month notice period, a final settlement payment of £403,773 arising out of or in connection with his employment and £250 in consideration for enhanced post-employment undertakings. He was eligible for a bonus of up to £615,000 (being his pro-rated maximum bonus opportunity, reflecting his period of service in the year). He received an actual payment of £538,125 as detailed on page 94. His DAB award of 28,057 shares vested on 30 September 2018. The Remuneration Committee having exercised its discretion, Nick's outstanding LTIP awards (as detailed on page 95) remain capable of vesting in accordance with the rules of the scheme, subject to achievement of applicable performance measures, reduced pro-rata to reflect his period of employment (rounded up on a whole-year basis) as a proportion of each award's three-year vesting period. His 2016 LTIP award did not vest and lapsed in full. Up to £25,000 (excluding VAT) will be paid directly to third-party service providers in respect of legal services relating to Nick's departure. Nick continues to receive private medical insurance cover consistent with current levels until 30 September 2019.

Percentage change in remuneration levels

The table below shows change in base compensation, benefits and annual bonus for the CEO in the 2018 financial year, compared to the average for all employees:

	Chief Executive Officer[1]		All employees
	At 31 December 2018 £	% change 2018 v 2017	% change 2018 v 2017
Base compensation	725,000	— %	3.72 %
Benefits	24,809	(58.3)%	(1.07)%
Bonus	1,228,150		(1.1)%

1 CEO figures represent those disclosed in the single figure table on page 92. As there was no bonus payable to the CEO in respect of 2017 no percentage change is shown.

This all-employee information is based on UK employees only, as it was felt that using overseas payroll data would distort the information.

Relative importance of the spend on pay

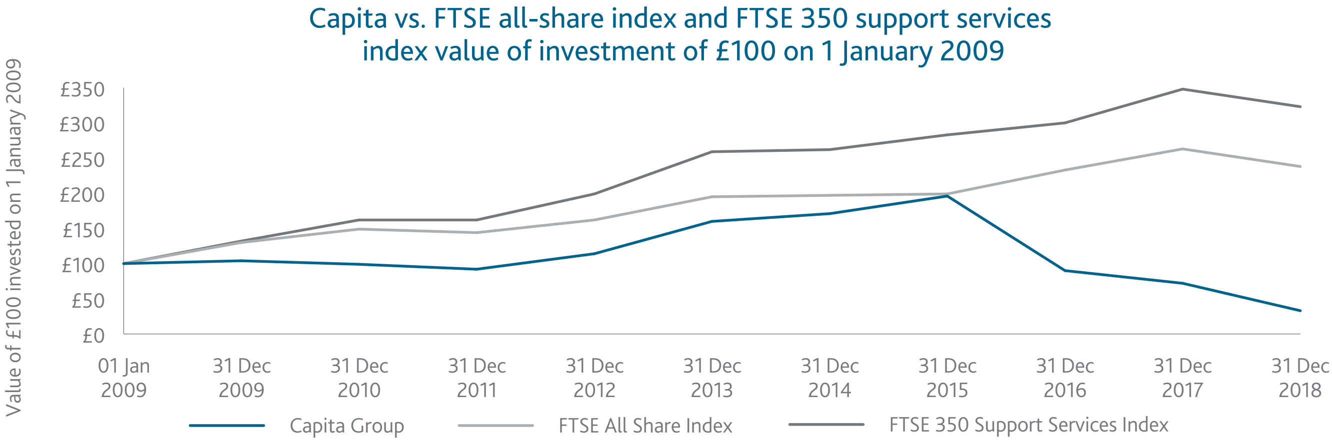
The table below shows the spend on employee costs in the 2018 financial year, compared to dividends:

	2018 £m	2017 £m	% change
Employee costs	1,993.1	2,218.9	(10.2)%
Dividends	—	211	(100.0)%

Directors' remuneration report continued

Performance graph and CEO pay

The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All-Share Index and the FTSE 350 Support Services Index, assuming that all dividend income is re-invested.



The Committee is of the opinion that this comparison provides a clear picture of the performance of the Group, relative to both a wide range of companies in the UK and also a specific group of companies within the same sector. Over the 10-year period to 31 December 2018, £100 invested in Capita on 1 January 2009 would be worth £33 at 31 December 2018 compared to £238 for an investment in the FTSE All-Share Index and £325 for an investment in the FTSE 350 Support Services Index.

The total remuneration figures for the CEO during the 2018 financial year are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus pay-out and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

Year	CEO – single figure of total remuneration	Annual bonus pay-out against maximum opportunity	Long-term incentive vesting rates against maximum opportunity
2018	£2,014,209	85%	—%
2017	£741,376	—%	—%
2016	£682,958	—%	—%
2015	£2,520,428	50%	71.365%
2014	£2,558,998	100%	67.2%
2013	£2,326,250	75%	54.5%
2012	£2,038,233	100%	47.75%
2011	£1,833,308	—%	56.02%
2010	£1,399,675	100%	88.567%
2009	£1,621,793	75%	100%

Note: the vesting rates for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2010–2013 and 2015. For 2014, this is the actual vesting for the LTIP as there is no DAB maturity in 2014.

Note: figures for 2010–2013 are based on remuneration for Paul Pindar. Figures for 2014–2016 are based on remuneration for Andy Parker. Figures for 2017 are based on remuneration paid to Andy Parker as CEO until 15 September 2017, to Nick Greatorex as interim CEO from 16 September 2017 to 30 November 2017, and to Jon Lewis as CEO from 1 December 2017.

Approval of the Directors' remuneration report

The Directors' remuneration report was approved by the Board on 13 March 2019.

John Cresswell
Chair
Remuneration Committee
13 March 2019