# Corporate governance

**Better outcomes**

**Cleaner air:** Capita designed, implemented and now operates the technology behind the world's largest ultra-low emission zone (ULEZ) system and service on behalf of Transport for London to reduce London's high levels of air pollution. Since its launch in April 2019, ULEZ has led to a reduction in the emissions of nitrogen oxides by approximately 29%.

# Chairman's report

"We appointed two employees to the Board after a thorough and rigorous selection process."

**Sir Ian Powell**
Chairman

**Governance plays a key role in the culture of any organisation and we welcome the updated and refreshed UK Corporate Governance Code 2018 (Code) against which we now report. I am pleased to introduce the corporate governance section of this Annual Report and present my introductory statement on Board governance during 2019.**

## Board leadership

The directors of the Company currently in office are listed on pages 52–53. Patrick Butcher was formally appointed as a director on 1 January 2019, having taken up his post as Chief Financial Officer at the end of 2018. We also appointed Georgina Harvey, an experienced non-executive director, on 1 October 2019 to the Board and as Chair of the Remuneration Committee in place of John Cresswell, who remains on the Board.

We are careful to ensure an appropriate balance of time commitments for each Board member. At the end of 2019, Georgina Harvey stepped down as a non-executive director of William Hill plc and Matthew Lester, who was appointed Chair of Kier Group plc with effect from 1 January 2020, stepped down as a non-executive director of Barclays plc and Barclays Bank plc on the same date, and as a non-executive director of Man Group plc on 26 February 2020. Matthew's appointment as Chair of Kier Group plc was significant but, taking into account changes in his non-executive portfolio, it was not considered by the Board to be excessive.

Our commitment to workforce engagement and board diversity has remained an important focus of the Board and, after a thorough and rigorous selection process, we appointed on 1 July 2019 two employee directors, Lyndsay Browne and Joseph Murphy, to the Board. Further information on their induction and perspectives is set out on page 59.

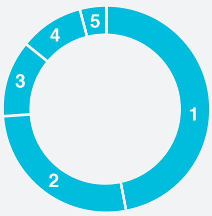
## Board diversity

A diverse board broadens perspective, enriches debate and ultimately improves the quality of decision making so I am pleased that we have improved our Board diversity by exceeding the 33% target for female representation. At 31 December 2019, we had seven men and four women directors. However, I am very conscious that our Board lacks ethnic diversity and this will be an area for development in future years. Further information on diversity across the Group is on page 34.

## Reappointment of directors

All members of the Board will stand for re-election (Georgina Harvey, Lyndsay Browne and Joseph Murphy for election) at the annual general meeting (AGM) in May. All Board members have received a formal performance evaluation which demonstrates that each director continues to be effective and committed to the role.

### Board time allocation




1 **47%** Strategy, transformation and growth
2 **27%** Executive reports
3 **12%** Governance (including Board evaluation)
4 **10%** IR / brand / reputation
5 **4%** Full and half-year results

## Meeting schedule

The Board has a standing schedule to meet six times a year but holds further meetings as required. A two-day meeting specifically to review strategy was held during the year. Board and committee meetings are structured around the Company's financial calendar. Agenda planning is undertaken in advance of every meeting to ensure an appropriate allocation of time to important topics.

In September, the Board spent three days in India visiting the Capita digital delivery centre and holding a scheduled Board meeting. This gave the directors an important opportunity to meet colleagues and experience first-hand some of our international operations.

## Senior management

We keep under ongoing review the structure of our businesses and management to ensure it is appropriate. The Executive Committee, formed during 2018, continues to comprise the divisional executive officers and functional heads under the Chief Executive Officer's leadership. Further detail about the Executive Committee can be found on pages 54–55.

## Board effectiveness

**Corporate governance principles**
We continue to pursue high standards of corporate governance and business practice, including the principles embodied in the 2018 Code, which permeate all aspects of the Board's activity and are reflected throughout this Annual Report. Further details on the application of these principles are signposted below:

**Leadership and purpose:** articulation of Capita's purpose and focus on culture on the inside front cover and pages 32–35.

**Division of responsibilities:** governance framework on page 57.

**Composition, succession and evaluation:** Nomination Committee report on page 66 and Board evaluation section below.

**Audit, risk and internal control:** Audit and Risk Committee report on page 68.

**Remuneration:** Remuneration Committee report on page 78.

**Board evaluation**
Board evaluation is undertaken annually, with external evaluation every three years. The last external evaluation was undertaken in 2018 and the key findings, together with actions taken in 2019 are set out below:

| Finding from 2018 evaluation | Action in 2019 |
|---|---|
| Long-term vision and strategy – extending the timeframe of strategic discussion and emerging risks during the year, with an annual deep focus on strategy and risk appetite. | Deeper strategic discussions around transformation and risk. Board strategy meeting held over two days. Formal strategic presentations by all divisions throughout the year. |
| 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. | Two employee directors were appointed in 2019. The Board held a scheduled meeting and met with colleagues at the digital delivery centre in India. |
| Succession planning – a skills and capabilities matrix would be developed by the Nomination Committee to help enhance Board succession planning. | Succession planning workshop held with Chief People Officer to develop skills matrix and relevant requirements – now a standing agenda item for the Nomination Committee. |
| Board programme – to ensure the Board programme and agendas facilitate appropriate exposure to Capita's business and senior management. | Board visit to Capita India. Presentations and Q&A with management on new consulting business and existing divisions. |

During 2019, an internal evaluation of the Board and its committees was undertaken by questionnaire and completed by each Board member. The results were collated by the Company Secretary for review by the Chairman and the findings were presented to the Board. Reports on committees were presented to the committee chairs and circulated to the Board.

**Directors in India:** the Board is committed to seeing the business in operation and in September 2019 spent two days at the digital delivery centre in Pune, India. As well as holding a scheduled Board meeting there, members met with the leadership and received formal presentations. The Board also visited operational delivery areas informally, meeting and talking with colleagues.

The evaluation concluded that the Board had performed well at this stage of the multi-year transformation programme, giving appropriate focus to key issues with suitable leadership, debate and challenge.

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 2020:

| Finding from 2019 evaluation | Proposed actions in 2020 |
|---|---|
| Remuneration framework | In conjunction with the Remuneration Committee, allocate more time to ongoing consideration and review of the framework for executive director and workforce remuneration. |
| Risk management framework | In conjunction with the Audit and Risk Committee, have greater oversight of the developing framework for risk management. |

## Remuneration

Following the vote (27.3%) against our remuneration report at the 2019 AGM, we have consulted with major shareholders to understand their concerns more fully and to inform our updated remuneration policy, to be put to shareholders for approval at the 2020 AGM. Further details can be found in the directors' remuneration report on page 79.

## Corporate governance and committee reports

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

**Sir Ian Powell**
Chairman
4 March 2020

## Chairman

**Sir Ian Powell** N
Chairman

**Appointed:** September 2016

**Independent at appointment:** Yes

**Key skills and experience:** Sir Ian was appointed as Non-Executive Director on 1 September 2016 and as Chairman on 1 January 2017. He is a chartered accountant and, before his retirement in June 2016, was Chairman and Senior Partner of PwC UK between 2008 and 2016.

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

## Executive Directors

**Jon Lewis**
Chief Executive Officer

**Appointed:** December 2017

**Key skills and experience:** before joining Capita, Jon was Chief Executive Officer of Amec Foster Wheeler. Prior to that, he had a 20-year career at Halliburton Company Inc, where he held a number of senior roles, including Senior Vice President and member of the Halliburton Executive Committee.

**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:** Patrick is a member of the Institute of Chartered Accountants (South Africa) and has over 17 years of experience as a finance director at board level in transport and infrastructure companies. Before joining Capita, he was Group Chief Financial Officer at Go-Ahead Group and formerly Group Finance Director of Network Rail.

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

**External appointments:** none.

## Independent Non-Executive Directors

**Gillian Sheldon** ANR
Senior Independent Director

**Appointed:** September 2012

**Key skills and experience:** Gillian is a senior adviser in Credit Suisse's investment banking division, where she has gained substantial experience of advising boards across a wide range of complex situations and transactions.

**Other current appointments:** senior adviser at Credit Suisse; trustee of BBC Children in Need and Chair of its Investment Committee; and member of the Corporate Advisory Board of the Royal Academy of Arts.

**Matthew Lester** ANR

**Appointed:** March 2017

**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 served as Group Chief Financial Officer for ICAP plc from May 2006 to November 2010.

**Other current appointments:** Chair of Kier Group plc; and a senior advisor to Hermes Investment Management.

**Georgina Harvey** ANR

**Appointed:** October 2019

**Key skills and experience:** Georgina has significant experience across highly competitive consumer-facing markets and of delivering successful transformational change. Prior to her current roles, Georgina was Managing Director of Regionals and a member of the Executive Committee of Trinity Mirror plc from 2005 to 2012.

**Other current appointments:** Non-Executive and Senior Independent Director of McColl's Retail Group plc; Non-Executive Director of Superdry plc; and Big Yellow Group plc.

## Independent Non-Executive Directors

**John Cresswell** **ANR**

**Appointed:** November 2015

**Key skills and experience:** John has substantial experience in leading, growing and advising media and broadcast organisations as CEO and executive director. He is a Chartered Accountant, has a BSc in Economics and Politics, and attended the advanced management programme at Harvard Business School. Previously, he was CEO of Arqiva and held a number of executive director roles on the board of ITV plc.

**Other current appointments:** Chief Executive Officer of Bibby Line Group Limited; member of University of Liverpool Management School Advisory Board.

**Baroness Lucy Neville-Rolfe** DBE CMG **ANR**

**Appointed:** December 2017

**Key skills and experience:** Baroness 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.

**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; Chair of UK-ASEAN Business Council; and member of the House of Lords EU Select Committee.

**Andrew Williams** **ANR**

**Appointed:** January 2015

**Key skills and experience:** Andrew is Chief Executive of FTSE 100 company Halma plc, a leading specialist in safety, health and environmental technologies. He is also a chartered engineer and a production engineering graduate of Birmingham University. He attended the advanced management programme at Wharton Business School, University of Pennsylvania, in 2004.

**Other current appointments:** Chief Executive of Halma plc; and Non-Executive Director of Cardiff Blues Ltd.

## Employee Non-Executive Directors

**Lyndsay Browne** **R***

**Appointed:** July 2019

**Key skills and experience:** Lyndsay is a member of the Institute of Chartered Accountants (Scotland) and has undertaken various finance roles in insurance and financial services since joining Capita in 2003. She currently works as a finance manager in the Specialist Services division and is involved in commercial contract management, the finance transformation programme and financial reporting. Before joining Capita, Lyndsay worked for KPMG Audit and Advisory in Glasgow and Bermuda.

**Other current appointments:** none.

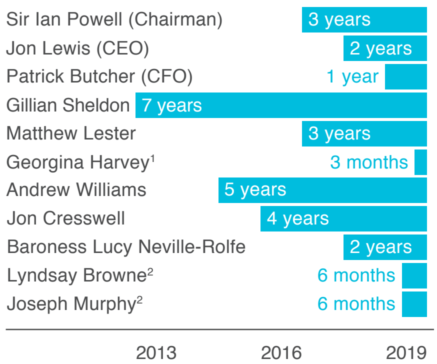
**Joseph Murphy** **A***

**Appointed:** July 2019

**Key skills and experience:** Joseph works in the technical advisory team in the Real Estate and Infrastructure business within Specialist Services. He joined Capita in 2015 and is a chartered civil engineer with a masters degree in ground engineering. His role involves monitoring and advising on large infrastructure projects in the UK and Europe. His previous experience includes engineering design and construction management.

**Other current appointments:** none.

**Board directors: length of tenure**




1. Joined the Board on 1 October 2019.
2. Joined the Board on 1 July 2019.

**Key to committees**

**A** – Audit and Risk
**N** – Nomination
**R** – Remuneration
○ – Committee chair

* From 6 March 2020.

**Capita's Executive Committee is chaired by Jon Lewis, CEO, and comprises 14 executive officers and functional heads, who are entirely accountable for their division or function.**

The divisions are aligned around five key growth markets: Software, People Solutions, Customer Management, Government Services and Technology Solutions. Alongside them sits the sixth division, Specialist Services.

**Jon Lewis**
Chief Executive Officer

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

**Patrick Butcher**
Chief Financial Officer

Patrick is responsible for setting financial strategy and policy, and implementing a framework of business controls to support Capita's transformation and sustainable growth. He is also responsible for the commercial and internal audit functions.

**Ismail Amla**
Chief Growth Officer

Ismail is responsible for supporting Capita's transformation and organic growth plans, and driving change in the sales model. He is also responsible for Capita's new consulting business.

**Chris Baker**
Executive Officer, Software

Chris leads one of the UK's largest software companies with market-leading positions in sectors such as education, emergency services, payments and local government. Its specialist enterprise products also serve cross-sector markets, in the UK and overseas.

**Claire Chapman**
Chief General Counsel

Claire provides expert and strategic legal advice, with a focus on legal and regulatory risk management, mergers and acquisitions, corporate projects, governance and contracts. She is also responsible for Capita's financial services, risk and compliance, privacy, clinical governance and company secretarial functions.

**Aimie Chapple**
Executive Officer, Customer Management

Aimie leads the division which delivers multi-channel customer experience services across the UK and internationally, for many leading brands in sectors ranging from telecommunications and utilities, to financial services and technology innovation.

**Mark Cook**
Executive Officer, Technology Solutions

Mark leads the division which provides digital technology solutions for enterprise workspace and connectivity to external public and private sector clients. He is also responsible for Capita's central Group IT function.

**Garry Dryburgh**
Chief Transformation Officer

Garry is responsible for developing, orchestrating and communicating the company's multi-year transformation programme, aiming to achieve the right balance between short-term improvement and delivery of Capita's long-term vision.

**Chantal Free**
Executive Officer, People Solutions

Chantal leads the division which solves large public and private clients' most complex people issues across the entire employment lifecycle from resourcing, learning and employee experience, to pensions consulting and administration.

**Rupert Green**
Chief Corporate Development Officer

Rupert is responsible for Capita's strategy development and execution; investor relations; and for mergers, acquisitions and divestments.

**Katja Hall**
Director of Corporate Affairs

Katja is responsible for internal and external communications, including employee engagement, public affairs, media relations and responsible business, while providing strategic and reputational guidance to the leadership team.

**Will Serle**
Chief People Officer

Will is responsible for delivery of the company's HR and people strategy, supporting and advising the organisation to evolve Capita's culture and ways of working for all its employees. He is also responsible for Capita's property function.

**Andy Start**
Executive Officer, Government Services

Andy leads the division which is a strategic partner to government in the application of digital transformation to improve the productivity of operations and to help deliver essential services to millions of customers.

**Jim Vincent**
Executive Officer, Specialist Services

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

# Committed to high standards of governance

## Corporate Governance Code

Capita plc and its subsidiaries (the Group) remain committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2018 (the Code) applies to accounting periods beginning on or after 1 January 2019 and is available from the Financial Reporting Council's website, www.frc.org.uk. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in sections 1 to 5 of the Code.

## Board changes during the year

On 1 January 2019, Patrick Butcher was appointed a Director. On 1 July 2019 the Board appointed Lyndsay Browne and Joseph Murphy as Employee Non-Executive Directors. Georgina Harvey was appointed as an Independent Non-Executive Director and Remuneration Committee Chair on 1 October 2019, succeeding John Cresswell who remains on the Board. Further information on Board changes is set out in the Nomination Committee report on page 66.

## Board composition

At 31 December 2019, the Board comprised 11 directors, made up of the Chairman, CEO, CFO, six independent non-executive directors and two employee 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. Details of each director's experience are set out in the directors' biographies on pages 52 and 53. As the Group develops, we will regularly review the Board composition to ensure it meets the needs of the business.

The composition of the Board at 31 December 2019 is shown below:

| Executive directors | Independent non-executive directors | Non-executive employee directors |
|---|---|---|
| Jon Lewis | Sir Ian Powell[1] | Lyndsay Browne |
| Patrick Butcher | Gillian Sheldon | Joseph Murphy |
| | Matthew Lester | |
| | John Cresswell | |
| | Georgina Harvey | |
| | Andrew Williams | |
| | Baroness Lucy Neville-Rolfe | |

1. Independent on appointment in accordance with the Code.

## Board meetings and attendance

During 2019, the Board held six scheduled meetings and a two-day strategy meeting. Additional ad hoc meetings are held as required. Attendance of the directors at Board and committee meetings is shown below; the maximum number of meetings a director could attend is in brackets.

| | Board meetings | Audit and Risk Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Sir Ian Powell** | 6(6) | n/a | n/a | 3(4)[1] |
| **Jon Lewis** | 6(6) | n/a | n/a | n/a |
| **Patrick Butcher** | 6(6) | n/a | n/a | n/a |
| **Gillian Sheldon** | 6(6) | 6(6) | 6(6) | 4(4) |
| **Matthew Lester** | 6(6) | 6(6) | 6(6) | 4(4) |
| **John Cresswell** | 6(6) | 5(6)[2] | 6(6) | 4(4) |
| **Georgina Harvey**[3] | 1(1) | 1(1) | 1(1) | 1(1) |
| **Andrew Williams**[4] | 6(6) | 3(6) | 3(6) | 4(4) |
| **Baroness Lucy Neville-Rolfe**[5] | 6(6) | 6(6) | 5(6) | 4(4) |
| **Lyndsay Browne**[6] | 3(3) | n/a | n/a | n/a |
| **Joseph Murphy**[6] | 3(3) | n/a | n/a | n/a |

1. Sir Ian Powell did not attend the Nomination Committee meeting convened to discuss his reappointment as Chair. Sir Ian is not a member of the Audit and Risk or Remuneration committees, but was invited to, and attended, all meetings.
2. John Cresswell was unable to attend a meeting of the Audit and Risk Committee due to a conflicting meeting in relation to his role as CEO of Bibby Line Group. However, he reviewed meeting papers and provided comments to the committee Chair in advance of the meeting.
3. Georgina Harvey was appointed to the Board on 1 October 2019.
4. Andrew Williams was unable to attend certain meetings of the Audit and Risk Committee and Remuneration Committee due to pre-existing commitments in his role as CEO of Halma plc. However, he reviewed meeting papers and provided comments to the relevant Chair in advance of the meeting.
5. Baroness Lucy Neville-Rolfe was unable to attend a meeting of the Remuneration Committee due to a conflicting meeting in relation to her role as a member of the House of Lords.
6. Lyndsay Browne and Joseph Murphy were appointed to the Board on 1 July 2019.

Meetings held outside the normal schedule need to be flexible and are often held by telephone.

Any director's absence from Board or committee meetings was previously agreed with the Chairman of the Board or relevant committee and the CEO.

During 2019, 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 CEO.
- 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, including to discuss Sir Ian's reappointment as Chairman which was formally recommended by the Nomination Committee for approval by the Board. 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. The connection between governance and delivery of strategy is reflected throughout this Annual Report.

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. For more information, please refer to the section 172 statement on page 39.

## 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 (see page 60). The Board has determined that, except for the employee non-executive directors, 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

### 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 66

### Audit and Risk Committee

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

Read more on page 68

### Remuneration Committee

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

Read more on page 78

# Role of the directors

### 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.

### Senior independent director

The senior independent director acts as a sounding board for the Chairman on Board-related matters, chairs meetings in the absence of the Chairman, acts as an intermediary for other directors when necessary, leads the evaluation of the Chair's performance, leads the search for a new Chair, when necessary, and is available to shareholders who wish to discuss matters which cannot be resolved otherwise.

### 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.

### 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 CEO is separate from that of Chairman to ensure that no one individual has unfettered powers of decision making.

### Non-executive employee directors

The non-executive employee directors are appointed from the workforce to contribute an employee perspective to Board discussions.

Board composition is a deliberate balance of newer and longer standing members, and reflects the ongoing review and refreshment of board membership to ensure a balance of skills and experience appropriate for the broad nature of Capita's businesses. The breadth of tenure and experience of the non-executive directors means the Board is well positioned to advise, challenge and support executive management during this period of transformation.

The Board 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 (see page 60).

## 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, 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 appointment**s, including changes to the structure, size and composition of the Board, and succession planning for the Board and senior management.

## Board of directors' induction 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.

A tailored induction programme was prepared for the two employee directors to ensure they were properly equipped to fulfil their role – further details are on page 59.

## Group Company Secretary

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

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

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

The role of Chief General Counsel was created in 2018 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 investor conferences. The Chairman and non-executive directors have also met 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. Analyst reports concerning Capita are circulated to the directors and the Board is kept informed of changes in the share register.

The Investor Relations team, Chairman and Chair of the Remuneration Committee engaged with shareholders ahead of the 2019 AGM to discuss governance and remuneration issues.

In November 2019, the Chairman, Chair of the Remuneration Committee and Senior Independent Director held a governance forum for the Company's top 20 investors. This enabled Capita's largest shareholders to engage directly with non-executive directors on the Company's strategy, transformation programme, governance (including the appointment of two employee directors), responsible business approach and wider corporate governance issues.

In November and December 2019, the Chair of the Remuneration Committee consulted with Capita's top 20 investors on proposed changes to the remuneration policy, including a discussion on measures for the short-term and long-term incentive plans. Further details are set out in the directors' remuneration report.

### Shareholder meetings

All shareholders are encouraged to attend the 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 chairs of the various committees, are present at the AGM to answer any questions. The Board particularly encourages communication with, and the participation of, private investors at the AGM.

## Workforce engagement

In light of the Code's new recommendations on workforce engagement, two employees, Lyndsay Browne and Joseph Murphy, were appointed to the Board during the year. The opportunity to apply for these roles was offered to all employees who had been with Capita for at least two years and there were approximately 400 applications from across the global workforce. The appointments followed a rigorous selection process that included an online questionnaire, independent assessment by a third party and a series of interviews with the Group Company Secretary, Chief General Counsel, Chief People Officer, CEO, Senior Independent Director and Chairman. Lyndsay and Joseph were given a tailored induction that covered the responsibilities and duties of a director, and specific subject matter presentations with functional heads that would equip them to fulfil their legal obligations and provide a framework in which they could bring to the Board their unique perspective as employees. Each was assigned two mentors, one from within Capita and one from an external independent firm, to support them as they settled into their roles.

### Q. Why did you apply for the role of employee director?

**Lyndsay:** In a word – curiosity. I realised that in appointing employee directors, the Board was sincere in its pursuit of putting employees at the heart of the company. I support increased transparency and diversity of thought in corporate governance and I believe that it can build trust in business and improve performance. I was curious to find out more and so applied.

**Joseph:** The internal advertisement really appealed to me. The description of the role as helping 'set Capita's strategy' and 'providing an employee perspective' were things I wanted to do, if I could. I felt I could provide some answers to the selection criteria, so it was worth applying.

### Q. What induction/preparation were you given?

**Lyndsay:** Joseph and I benefited from a structured and comprehensive induction programme covering technical and legal matters, as well as what to expect in and out of the boardroom. We have ongoing access to resources and Board and external mentors, ensuring we have the tools and support to be informed and effective members of the Board.

**Joseph:** Once appointed, we began a series of trainings and meetings. The training included the legal obligations of a director and issues such as inside information to ensure we understood these requirements. We were trained in how the various Group functions were relevant to how the Board operated and we met the divisional and functional heads to get to know them and help our understanding of the whole Group.

### Q. What value does the employee director role bring to the Board?

**Lyndsay:** We bring an understanding of the organisation that is different from the rest of the Board. This perspective can add colour to discussions and provide ideas and constructive insight. We are uniquely placed to consider and articulate how employees may perceive and be impacted by Board decisions, which raises the profile of employees and other stakeholders in decision making. We might not have the leadership experience and expertise of other Board members, but I believe this can stimulate conversation, reflection and collaboration.

**Joseph:** I think the main benefit is that now two Board members have direct experience of what it is like to work in the company below executive level and provide direct feedback on areas such as policy implementation, customer feedback and employee morale. The Board as a whole has a better understanding of the company, increased trust and insight into how their objectives are progressing.

### Q. What is the most significant thing you have learned since joining the Board?

**Lyndsay:** The decisions and matters that boards grapple with routinely are highly complex in nature: there are inherent internal and external uncertainties, many interdependencies and the needs of multiple stakeholders to consider and balance. Since joining the Board, I have a greater appreciation of this complexity and the important role a board plays in governance. It feels really important to me to have a clear corporate purpose and set of values to guide decision making, as it provides a framework and a constant reference point against which to navigate the complexity and evaluate potential courses of action.

**Joseph:** I've learned a lot about the obligations of a director and how to meet them. I've also learned how important good relationships and the right people are to success, at every level of the company.

**Joseph Murphy and Lyndsay Browne:**
**"We bring an understanding of the organisation that is different from the rest of the Board. We are uniquely placed to consider and articulate how employees may perceive and be impacted by Board decisions."**

**Shareholder communications**
In addition to attendance at the AGM, shareholders can access up-to-date information through the Group's website at www.capita.com. Shareholders can also view their holdings by using the Signal shares shareholder portal, a service offered by Link Asset Services, the Group's registrar, at www.capitashares.co.uk. The Signal shares portal is an online service enabling shareholders to quickly and easily access and maintain their shareholding online. Shareholders can also contact Link by email at enquiries@linkgroup.co.uk. Link also provide a telephone helpline, 0371 664 0300, calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09.00 and 17.30, Monday to Friday, excluding public holidays in England and Wales.

## Business relationships

Details regarding relationships with suppliers, clients and others, together with further cross-references, are provided in the section 172 statement on page 39.

## Remuneration Committee

Details of the Remuneration Committee and its activities are given in the directors' remuneration report on pages 78–97.

## 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 40–42.

Furthermore, through the operation of the risk governance process, the directors confirm, for the purposes of provision 28 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 43–47.

## 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 2019 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 1–48. Details of the Group's business goals, strategy and model are on pages 3, 6 and 7.

**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 56–64.

**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 1–48 comprise the management report.

**Post-balance sheet events**
On 8 January 2020, as part of the property rationalisation, under IFRS 16, the Group extinguished a property lease liability (31 December 2019: £20.9m) and acquired the freehold for £30.7m cash. This resulted in a derecognition of £7.1m of the right of use asset, a £3.0m addition to freehold property, and a charge to significant restructuring of £9.2m. There are no post balance sheet events that have an adjusting effect on the financial statements.

**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 in section 7 of the financial statements on pages 174–185. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections have been received from shareholders.

**Appointment, reappointment 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 Code, to annual re-election thereafter. A resolution to re-elect each director will therefore be proposed at the AGM on 12 May 2020.

No person, other than a director retiring at the meeting, shall be appointed or reappointed 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 reappointed unless between seven and 35 days' notice, executed by a member qualified to vote on the appointment or reappointment, has been given to the Company of the intention to propose that person for appointment or reappointment, together with notice executed by that person of his/her willingness to be appointed or reappointed.

**Group activities**
Capita is a consulting, digital services and software business, based in the UK, with a growing international operation and sales focus. It is a purpose-led organisation which exists to 'create better outcomes' for all stakeholders.

A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1–48. The operational and financial performance of its divisions are detailed on pages 20–31.

**Results and dividends**
The Group's reported loss before tax amounted to £(62.6)m from continued operations (2018: £272.6m profit). As previously announced, the directors do not recommend the payment of a final dividend (2018: nil). The total dividend for the year was nil (2018: nil). 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.

**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.

## Major shareholders

At 31 December 2019, 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 2019 | Number of shares direct | Number of shares indirect |
|---|---|---|---|---|
| Investec Asset Management Ltd | 194,275,289 | 11.64 | – | 194,275,289 |
| RWC Asset Management LLP[1] | 186,951,093 | 11.20 | – | 186,951,093 |
| Invesco Ltd | 182,100,179 | 10.91 | – | 182,100,179 |
| Veritas Asset Management LLP[2] | 116,588,466 | 6.99 | – | 116,588,466 |
| Schroders Investment Management Ltd | 101,030,829 | 6.05 | – | 101,030,829 |
| Coltrane Asset Management L.P. | 83,888,589 | 5.02 | 5,140,000 | 78,748,589 |
| 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 Inc. | 54,711,874 | 3.28 | 54,711,874 | – |
| Jupiter Asset Management Limited | 53,573,060 | 3.21 | – | 53,573,060 |
| Norges Bank Investment Management[3] | 50,283,099 | 3.05 | – | 50,283,099 |

1. Includes, 302,284 voting rights arising from the holding of certain financial instruments.
2. Includes the holding of Veritas Funds PLC.
3. Includes 695,170 voting rights arising from the holding of certain financial instruments.

On 14 February 2020, notification in accordance with the DTRs was received from Invesco Ltd that it held indirectly 166,767,761 shares, being 9.99% of voting rights. At 2 March 2020, no further notifications had been received under the DTRs in relation to interests in the Company's shares.

### Directors' interests

Details of directors' interests in the share capital of the Company are listed on page 93.

### Share capital

At 2 March 2020, the number of ordinary shares of 2 1/15p each in issue, fully paid up and quoted on the London Stock Exchange is detailed in the table below:

| | Number of shares | % of issued share capital |
|---|---|---|
| Issued shares | 1,671,273,523 | |
| Treasury shares | 2,576,569 | 0.15% |
| Total voting rights | 1,668,696,954 | |
| Employee Benefit Trust shares[1] | 12,630,742[2] | 0.76% |

1. Shares held in the Employee Benefit Trust are used for satisfying employee share options.
2. During the year, 600,000 shares were acquired by the Employee Benefit Trust.

During the year ended 31 December 2019, no new ordinary shares were issued and options exercised pursuant to the Company's share schemes were satisfied by the transfer of shares from treasury (281,762 shares). No shares were transferred out of the Employee Benefit Trust during the year and 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.

The share price at 31 December 2019 was 164.10p. The highest share price in the year was 185.25p and the lowest was 98.66p.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the AGM in May 2019. During the year, the Company did not purchase any shares (2018: nil).

### Viability statement

This statement is detailed in full on page 48.

The directors have assessed the viability of the Group over the three-year period to 31 December 2022, 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 1–48. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 111–114. In addition, section 4 in the financial statements on pages 149–159 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 2019, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. For the purpose of the going concern assessment, the Board has considered the period to 31 August 2022 being 29 months from the date of approval of these financial statements and aligned with the expiry date (31 August 2022) of the RCF and the new backstop loan facility agreed in February 2020. Detail of the facilities are set out in section 4 to the consolidated financial statements.

The Board has concluded that the Group will continue to have adequate financial resources to realise its assets and discharge its liabilities as they fall due. Accordingly, the directors have formed the judgement that it is appropriate to prepare the consolidated financial statements on the going concern basis.

### Auditor review

The auditor has reviewed:

- the statements regarding going concern (see page 61).
- the longer-term viability statement (see page 48)
- those parts of the statement of compliance with the Code relating to:
  - directors' and auditor's responsibilities
  - the 'fair, balanced and understandable' statement
  - confirmation of robust risk assessment and monitor and review of effectiveness of risk management and internal control systems
  - Audit and Risk Committee composition, role and responsibilities. Further details are in the auditor's report (pages 98–108).

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

**Employee development and engagement**
In 2019, Capita strengthened its approach to communicating, collaborating with and engaging colleagues around the world. Colleagues had already played a significant role in developing Capita's purpose, values and behaviours, involving more than 1,000 people taking part in workshops internationally.

Capita's annual people survey was completed by 72% of colleagues – a 6% improvement on 2018.

Obtaining employee involvement, feedback and ideas was also key in developing the employee value proposition. The appointment of employee directors to the Board in July 2019 demonstrated Capita's commitment to ensuring that its colleagues' voices were heard at the very top of the organisation.

Further information is included in the people and responsible business sections on pages 32–39 and the section 172 statement on page 39.

To communicate more effectively with colleagues, a robust system was developed, which included a regular cadence of activities to ensure everyone was involved with the transformation journey. Activities include a monthly CEO video call, followed by a company-wide cascade and regular leadership email updates. Levels of face-to-face engagement with colleagues were also improved – with stronger visibility of senior leaders across the business through roadshows, conferences, events and workshops.

Capita's brand refresh in September 2019 provided a significant opportunity to engage with colleagues in new ways. The TED event, which took place at the Science Museum in London, was live-streamed and Capita held its first global broadcast. Capita also launched its corporate narrative, helping to share a consistent and compelling story of where the business is headed.

Capita has started laying the foundations to modernise how it communicates, with a focus on using digital channels and video much more extensively. Embedding Microsoft's Office 365 suite has been fundamental in creating more collaborative ways to share information and communicate key changes, improvements and ways of working. Yammer (Capita's internal social network channel) activity increased dramatically in 2019 with functional, divisional and special interest groups developing across the business. It has provided a more accessible, conversational approach to colleague communications and opportunities for sharing knowledge and collaboration.

In 2020, Capita will continue to modernise how it communicates and engages with employees. The focus will be on involving team members, having open and honest conversations and increasingly emphasising the great work done by employees at Capita.

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.

Capita's 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 people, while ensuring it recruits and develops for the future by sourcing and developing graduates and apprentices. These activities will ensure Capita has not only the correct quality of people delivering to clients, but also an appropriate leadership pipeline for the future. Capita has 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 (2018: £nil).

**Greenhouse gas emissions**
Details of the Group's greenhouse gas emissions, including metrics and methodology, are set out on page 37 of the strategic report.

**Financial instruments**
The main financial risks the Group is exposed to are: insufficient liquidity, significant increases in interest rates, adverse movements in foreign exchange rates, and the insolvency of debtors (credit risk). The management of each, and related financial instruments, are described below.

Financial instruments used to fund operations and to manage liquidity comprise US private placement loan notes, euro fixed rate bearer notes, a Schuldschein loan, a revolving credit facility (RCF), leases and overdrafts. The Group avoids relying on sources of funding that are not contractually committed.

To mitigate the risk of needing to refinance in challenging conditions, the Group's financial instruments funding has been arranged with multiple sources with a spread of maturities up to November 2027. In addition, the Group's committed RCF provides flexible liquidity available for operations and a reasonable liquidity buffer allowing for contingencies. In December 2019, the facility was extended to 31 August 2022, (extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021). The facility value was £414.0m at year end. In February 2020, an additional bank joined the facility increasing the aggregate commitments to £452.0m in total, and, in addition to the RCF, the Group agreed a backstop liquidity facility of £150.0m which has an initial maturity in February 2021 and is extendable at the option of the Group to a final maturity in August 2022.

The RCF, US private placement loan notes, euro fixed-rate bearer notes, and Schuldschein loan all include provisions that would require repayment in the event of a change of control, which are typical of these arrangements.

Various other financial instruments, such as trade debtors and trade creditors, arise directly from the Group's operations. In respect of trade creditors, the Group's standard supplier payment terms are: to pay micro businesses (less than 50 employees) within 14 days, SMEs (less than 250 employees) within 30 days, and larger organisations within 60 days. Suppliers are paid in line with agreed contractual terms.

The Group's customers are offered credit terms that are consistent with market practice. Historically, the Group has made use of short-term non-recourse invoice financing facilities provided to it by relationship banks, however such facilities were not used during the year and the Group does not expect to use such invoice financing in future. The Group is not knowingly reliant on the ongoing availability of supplier early payment facilities offered by third parties.

As set out in note 6.2 (contingent liabilities), the Group has provided, through the normal course of its business, £58.4m letters of credit, performance bonds and guarantees – £7.1m of these were issued by our banks and, within this group, some are subject to security terms where the bank can demand cash collateral in the event the guarantee facility is cancelled.

Exposure to interest rates and foreign exchange rates arises from time to time through the Group's operations and where financial instruments are transacted at floating rates of interest or in non-operational currencies. These exposures are managed through derivative transactions, primarily interest rate swaps, cross-currency interest rate swaps and forward foreign exchange contracts. A proportion of exposures to EUR is mitigated through borrowings in that currency.

The Group is not generally exposed to significant foreign currency transaction risk, except in respect of its overseas operations in Europe, India, South Africa and the USA, which generate exposure to movements in exchange rates. This is managed through forward foreign exchange contracts, including non-deliverable forward contracts, which fix the GBP cost of highly probable forecast transactions denominated in INR, USD and ZAR. Further details of the Group's financial instruments can be found in note 4.5 to the consolidated financial statements on pages 155–158.

In respect of credit risk, the Group trades only with parties that are expected to be creditworthy. 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.

Credit risk also arises from financial assets such as cash, deposits, and positive mark-to-market value of derivative instruments. The risk of default is managed by avoiding any excessive exposure to any counterparty, and with reference to the public ratings of each.

**Directors' indemnities**

As permitted by its Articles of Association, the Company has indemnified each director in respect of certain liabilities and costs they might incur in the execution of their duties as a director. Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and continue to remain in force. The directors' indemnities will be available for inspection at the annual general meeting together with directors' 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 2020 AGM of the Company will be held at Linklaters LLP, One Silk Street, London EC2Y 8HQ on Tuesday 12 May 2020. 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 2019 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 May 2019, shareholders granted authority for the Company to purchase up to 166,841,519 ordinary shares. This authority will expire at the conclusion of the 2020 AGM. No shares were purchased during 2019. A resolution to renew this authority will be put to shareholders at the 2020 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 | 155 |
| 9.8.4 (12–13) | Shareholder waiver of dividends | 60 |

## 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 50–97) has been approved by the Board.

On behalf of the Board.

**Francesca Todd**
Group Company Secretary
4 March 2020
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 and updated, where required, to reflect updates in good governance practices and the implementation of the Senior Manager Certification Regime. They are summarised below and, along with 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.<br>• Recommends appointment of new directors.<br>• Considers succession plans for Board and senior management positions.<br>• Oversees development of diverse pipeline for succession. |
| Audit and Risk Committee | • Reviews accounting policies and contents of financial reports.<br>• Monitors internal control environment.<br>• Considers adequacy, effectiveness and scope of external and internal audit programme.<br>• Oversees relationship with external auditor.<br>• 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.<br>• Approves individual remuneration awards.<br>• Agrees changes to senior executive incentive plans. |
| Disclosure Committee | • Comprises any two of the Chairman, Senior Independent Director and the executive directors.<br>• 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 | Georgina Harvey | John Cresswell | Andrew Williams | Baroness Lucy Neville-Rolfe |
|---|---|---|---|---|---|---|---|
| Nomination | C | X | X | X | X | X | X |
| Audit and Risk | | X | C | X | X | X | X |
| Remuneration | | X | X | C | X | X | X |

(C) Chair

## Frequency of meetings and attendance

During 2019, the Nomination Committee met four times, the Remuneration Committee met six times and the Audit and Risk Committee met six times. Some directors were unable to attend certain committee meetings due to prior commitments. Attendance of directors at committee meetings is shown in the table on page 56.

# Providing opportunity for everybody

The committee met four times in 2019 and the members' attendance record is shown on page 56.

The Group Company Secretary acts as Secretary to the committee and is available to assist committee members as required, also ensuring the distribution of timely and accurate information.

The committee reports and makes recommendations to the Board in relation to its activities. 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 and inclusion

Capita's diversity and inclusion policy, which includes the Board, is based on a commitment to creating an environment where diversity is valued and respected, and where people can bring their different perspectives and whole selves to work. We believe that business 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.

**"Appointments are made on merit, taking account of the specific skills, experience, knowledge and independence needed to ensure a rounded Board."**

**Sir Ian Powell**
Chair
Nomination Committee

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 Group and its training and mentoring initiatives actively support the fostering of talent at all levels in the business and across the Company's diverse workforce. The Board and senior management teams across Capita are 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 32–34 of the strategic report. The appointment process for employee directors included a detailed online questionnaire, independent assessment by a third party and a series of interviews with the Group Company Secretary, Chief General Counsel, Chief People Officer, CEO, SID and Chairman.

## Appointment process

Board appointments are made on merit, taking account of the specific skills, experience, knowledge and independence needed to ensure a rounded board, and the government-backed recommendation for 33% female representation on boards by 2020. We ensure 40% female representation on recruitment shortlists and, where appropriate, seek to include candidates who may not have listed company experience but who possess suitable skills and qualities. We only engage executive search firms that have signed up to the voluntary code of conduct on gender diversity and best practice.

## Succession planning

A formal succession framework is in place for the CEO, CFO, Executive Committee and the two management layers beneath. The purpose of the framework is to apply a fair, objective and consistent methodology to identify future potential career paths for individuals within the Group. Structured development plans are implemented to support individuals improve their skills and experience. The depth of the framework means talent can be identified and nurtured at an early stage and, combined with the approach to Board appointments, means the pool of possible future candidates for Board roles is sufficiently wide and diverse.

## Gender balance

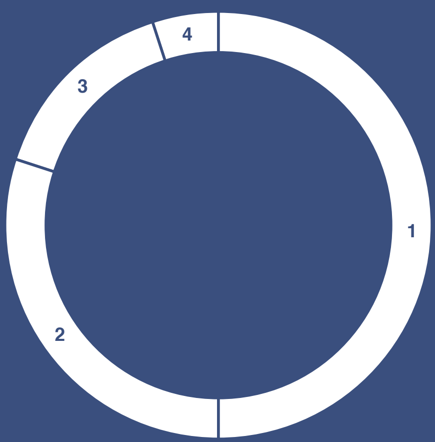
At 31 December 2019, female representation on the Board and Executive Committee was 36% and 29% respectively. At 31 December 2019, female representation among senior management[1] and their direct reports was 41%.

## Board evaluation

Details of the annual board evaluation process are provided in my introduction to this corporate governance section of the Annual Report on page 51. There were no specific issues arising from the 2019 evaluation process relating to board composition or succession planning.

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

**Nomination Committee time allocation** (%)




1 **50%** Board appointments
2 **30%** Succession planning
3 **15%** Performance, conflicts and diversity
4 **5%** Governance

## Responsibilities and activities

### Key responsibilities

- 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, evaluate and drive Capita's diversity policies.

### Activity in 2019

- Succession planning for the Board generally and for other senior positions below Board level.
- Recruitment and appointment of a new non-executive director and Remuneration Committee Chair: the external search agency, The Inzito Partnership, was used for this appointment and it has no other connection with the Group or individual directors.
- 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 reappointment of Sir Ian Powell as Chair and the appointments of Lyndsay Browne and Joseph Murphy as employee directors.

# Developing our risk and control framework

The committee continues to fulfil 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.

## Risk and control framework

A key area of focus during 2019 was the development of the Group's revised risk and control framework. The CFO assessed this framework in light of the new operating model and considered how best to develop the control environment. A revised framework, together with revised principal risks, has been articulated to the Committee and work is ongoing to implement the more detailed elements of it across the Group.

## Finance transformation

The Group is undertaking a major transformation programme, and transforming the finance function is an important feature as this will significantly strengthen the control framework and provide a more robust structure to deliver the management information necessary to inform critical decisions on a timely basis. As part of the finance transformation, a new operating model was approved including investment in a new accounting system. Much progress has been made but it became apparent in 2019 that the resources and funding required to complete this programme exceeded those initially anticipated. The Board decided to pause the project while plans are re-evaluated to ensure they address the matters

"A key area of focus during 2019 was the development of the Group's risk and control framework."

**Matthew Lester**
Chair
Audit and Risk Committee

**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.**

identified and are appropriately funded and resourced. To accompany the new accounting system, the finance transformation project team developed a new matrix of end-to-end process mapping with controls to complement the control framework. Pending the revised plan, the committee has relied on the previous framework under which divisional management provide the necessary assurances to confirm that the standard of controls expected from a group such as Capita have been adhered to. This process has been supported by an external review conducted by PwC. The committee has reviewed the output and engaged in full discussion with executive management, internal and external audit, risk and compliance functions to discharge the committee's duties in relation to considering the effectiveness of the risk and control framework.

### Transformation journey

Capita remains on a journey of transformation and this encompasses the Group's risk and control framework. Much has been achieved to date including the roll-out of the operating model and the establishment of core central oversight functions. The committee's focus for 2020 will be the actions agreed to embed the new finance target operating model. A key element of this will include monitoring the recommencement of the project through to go-live with the new accounting system and roll-out of enhanced control processes.

Until this time, the committee will continue to assess the current risk and control framework with inputs from Group functions on a regular basis to inform the committee members. For example, committee meetings will continue to include focus on reviewing risks and controls within divisions, functions and principal risks as well as in respect of key projects. The review schedule will be adjusted where necessary as implementation of the revised risk framework develops.

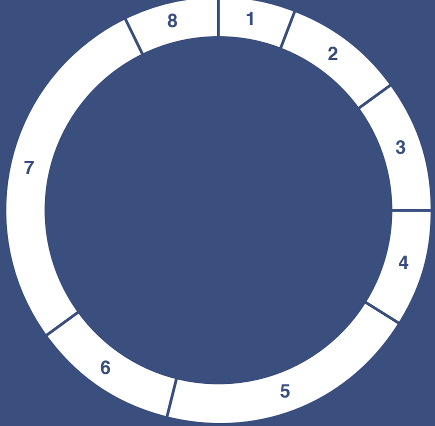
### Committee membership and attendance

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 2018.

To encourage effective communication, in addition to the above members, the Board Chairman, CEO, CFO, 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 Risk & Internal Audit Director 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 internally facilitated Board evaluation (see page 51 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, or their nominee, 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.

**Audit and Risk Committee time allocation** (%)




1 **6%** Governance
2 **9%** Division deep dive
3 **10%** Function deep dive
4 **9%** Cyber security/business resilience/data privacy
5 **20%** Risk management
6 **11%** Internal audit
7 **28%** Full and half-year results (incl. external audit)
8 **7%** Private meeting with auditors

## Role and responsibilities

The 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 control 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.

**Cyber security**
To review and assess cyber security 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.

## 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 Group functions, including risk and internal audit, as appropriate. New sales wins and their contract terms are reviewed from a risk and accounting perspective as appropriate. Additional reports are provided as may be required. I report to the Board the key matters of discussion and make any significant recommendations as necessary.

## How the committee discharged its roles and responsibilities in 2019

The committee met six times during the year and attendance at each meeting is shown on page 56. Meetings are planned around the Company's financial calendar.

## 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 71–73.

The committee has assisted the Board in reviewing the key metrics 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, in particular IFRS 15, have on the timing of recognition of profits and cash inflows.

The committee reviewed 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, meaning free cash flow will not always be reflected in the reported profits (refer to note 2.10 to the consolidated financial statements). The Board will continue to review how the different measures are presented and the committee has requested that management keep under review 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 considered whether full-year and half-year results announcements 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.

**Communications with the FRC**
In December 2018, the Company received a letter from the Financial Reporting Council (FRC) following a review of the Capita plc 2017 Annual Report and Accounts. The letter included queries principally related to disclosures included in the 2017 Annual Report and Accounts, with no issues raised in terms of the Group's key accounting policies and judgements. The FRC also highlighted for consideration our presentation of certain items in our consolidated cash flow statement. Following a review, we agreed to restate the presentation of certain items which we explained in the notes to the 2018 Annual Report and Accounts. There was no adjustment required for the overall net movement in cash and cash equivalents as previously reported, but with changes required to the presentation of sub-totals within the cash flow statement. In addition, for certain areas, we agreed to enhance the current disclosures or provide new voluntary disclosures to provide greater clarity to aid the reader of the Annual Report and Accounts. The FRC has indicated its intention to close the enquiry.

Please note that the review carried out by the FRC provides no assurance that the Annual Report and Accounts were correct in all material respects. The FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

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

### Revenue and profit recognition

#### Matter considered

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.

Judgement is also required when customers request scope changes to determine if there is a contract modification or a contract termination followed by a new contract. Contract terminations can lead to the immediate recognition of any deferred income being held for recognition in future periods

#### Action

The committee received regular updates on all major contracts during the year and specifically reviewed the material judgements as part of the half-year and year-end close process. The committee has also considered the recognition of onerous provisions, where appropriate, and the lifetime profitability of contracts.

To aid the reader, and following discussions with the FRC, the company has included a more detailed explanation of the group's accounting for long term contracts (see note 2.1 to the consolidated financial statements).

#### Outcome

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. The committee reviewed the new disclosure and concluded that these provide additional information that is helpful to allow a fuller understanding of the application of IFRS 15 to the Group's contracts.

### Contract fulfilment assets

#### Matter considered

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.

#### Action

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.

The company agreed with the FRC to enhance the disclosures of key estimates and judgements to provide further clarity of when CFAs are at heightened risk of impairment. This is typically when the contract is in the early years post inception and undergoing major transformation activities.

#### Outcome

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.

The committee reviewed the new enhanced disclosures and are satisfied that these provide additional information to allow a reader to understand the risks associated with different stages of a typical long-term Capita contract.

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

#### Matter considered

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.

#### Action

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 2019.

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.

In reviewing the appropriateness of the historical allocation and impairment of goodwill, the committee has considered whether recent disposals resulted in an impairment of goodwill or other long-term assets. This review was in respect of the years 2015 to 2019 for disposals with proceeds >£50m.

#### Outcome

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 notes 3.3 and 3.4 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 the level of detail included in the sensitivity analysis to ensure that this reflected the current stage of the transformation and the associated execution risks.

The committee also considered that any impairment of investment in subsidiaries at the parent company level were appropriate and properly accounted for.

### Items excluded from adjusted results

**Matter considered**
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.

**Action**
The committee has reviewed the individual items excluded from adjusted results. 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 functional transformation projects. 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 2.4 to the consolidated financial statements provides details of the costs incurred in 2019. The committee will continue to review this policy in 2020 and beyond, as the transformation programme continues.

**Outcome**
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 2.4 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 CFO to continue to review the approach in 2020.

The committee continues to encourage management to provide transparency over items the impact the results, both reported and adjusted. The CFO's review within the strategic report provides details of each significant item and those that are considered one-off in nature. The committee is satisfied that this provides useful information to allow a reader to assess the performance for the year.

### Capitalisation and recoverability of intangible assets

**Matter considered**
As part of the transformation plan, the Group is investing in new systems and processes, including the finance transformation with the implementation of new finance systems. Judgement is applied in assessing whether costs incurred, both internal and external, will generate future economic benefits.

**Action**
The committee has considered and challenged the significant judgements and estimates involved in determining the carrying value of the asset relating to the finance transformation, including assumptions made in respect of the status of the programme and potential future changes to the operating model of the Group.

The committee reviewed the robustness of the impairment analysis acknowledging that there is a range of possible outcomes when a decision has been made to reassess a programme of this complexity. The committee challenged the appropriateness of assumptions used to calculate and determine the existence of impairment.

The committee also reviewed the disclosures in the financial statements in respect of the programme.

**Outcome**
The committee is satisfied that the impairment of the asset relating to the finance transformation recognised in these statements appropriately reflects the status of the programme and potential future changes to the operating model of the Group.

Importantly the committee were satisfied that there was sufficient support and evidence to conclude that the asset carried forward will deliver the expected future value when the programme recommences. As part of this assessment the Board confirmed its intention to complete the finance transformation including this new finance system.

The committee is also satisfied that the disclosure in note 3.3 to the consolidated financial statements are sufficient to give the reader an understanding of the trigger for impairment in the year and the further impairment risk of potential changes to the operating model of the Group.

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 charge recorded in the year.

### Provisions and contingent liabilities

**Matter considered**
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.

**Action**
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.

As announced at the 2019 half year, the company has been notified under a supplier contract of a potential liability in respect of past services received. The committee has considered with management the internal view over any potential outcome, which supports the disclosures presented.

The committee received regular updates from the Chief General Counsel on open claims and ongoing litigation. This was used to inform the committee on any provisions required for possible future outflows.

**Outcome**
The committee is satisfied with the fact patterns underlying the provisions, with both the treatment and levels of provision being properly justified.

The committee reviewed the disclosures associated with the provisions recorded and also the contingent liability note. It was satisfied that the disclosures provided proportionate details to inform a reader.

In particular in relation to the current discussions with a supplier, which are likely to lead to settlement negotiations, the committee was satisfied that no financial information was disclosed as this could potentially be prejudicial to any agreed outcome.

### Pensions

**Matter considered**
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.

**Action**
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 standalone basis as well as in the context of defined benefit schemes across other external benchmarks.

**Outcome**
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**
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.

**Action**
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 three years to 31 December 2022.

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 in section 1 to the consolidated financial statements.

The committee considered the facilities that are available to the Company to support the going concern assessment. This includes the revolving credit facility and the backstop liquidity facility that was agreed in February 2020. Both facilities expire on 31 August 2022, which is the period the committee has considered in assessing going concern.

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 48) should be recommended to the Board for approval.

**Outcome**
The committee is satisfied that the management analysis provides sufficient detail and support to allow a robust assessment of relevant risks and mitigations. This allowed a full discussion over the severe but plausible downsides, and allowed the committee to recommend to the Board that the going concern assumption be applied. The committee concluded that the mitigations and facilities available provide sufficient headroom against the risks identified to support the resilience of the parent company and group. The committee is satisfied that section 1 to the consolidated financial statements includes detailed disclosures concerning the going concern assertion and key assumptions applied to inform the users of the assessment undertaken by the Board.

## 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 committee is informed of individual items above a certain threshold that are most likely to have an impact on the financial statements. The 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: statement of comprehensive income, 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 CFO 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 committee is satisfied that materiality has been applied correctly in the accounts and that material items brought to its attention remain unadjusted where their 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 audit-related 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, audit-related services and fees, and ongoing audit items.

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

**Auditor independence**

The committee has a responsibility to put in place safeguards to auditor objectivity and independence and the key measures are:

- The CFO monitors the independence of the auditor as part of the Group's assessment of auditor effectiveness and reports to the committee accordingly.
- The CFO must approve all audit-related engagements – further details are set out in the section below on audit-related services. The committee reviews audit-related fees twice a year and considers the implications for auditor objectivity and independence.
- The auditor must confirm its independence to the 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 and private sector clients, and in key supplier relationships. They are a key factor in the award process for an external audit assignment.

**Audit-related services and fees**

During the year, the committee approved a revised policy on auditor independence. The updated policy describes the services that may be procured from the auditor, namely audit and audit-related services only. To avoid the perception of a conflict of interest, the provision of non-audit services is no longer permitted and, from 1 January 2019, KPMG and its member firms ceased to provide Capita with such services. Audit-related services include those required by laws and regulations, or where it is more practical for the external auditor to perform the service (eg reporting accountant role related to certain public company transactions). KPMG continues to perform the review of interim results which, although technically classified as a non-audit service, relates closely to the audit.

Under the policy, which is reviewed annually, executive management has discretion to engage the auditor for audit-related services but the nature of such assignments and associated fees must be reported regularly to the committee. All assignments require approval from the CFO. Where executive management has any concern that a proposed assignment might threaten the auditor's independence, this is discussed with the committee chair.

Total non-audit fees during the year were £0.2m, and related to the review of interim results. Further details are provided in note 2.3 to the consolidated financial statements.

### External auditor performance
The committee discussed regularly the performance of KPMG during the year and was satisfied that the level of communication and reporting was appropriate. These discussions included a review of the effectiveness and quality of the audit process, audit planning and a formal post-audit evaluation.

The formal evaluation comprises separate assessments by both management and the committee of the auditor's role, activity and performance including:

- calibre and risk profile of the audit firm
- audit governance, independence and objectivity
- audit scope and strategy
- audit team and relations with management and business
- audit communications and resolution of audit 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.

### External auditor reappointment
Following a robust and rigorous audit tender process in 2018, the committee and Board recommended the reappointment of KPMG LLP as the Group's auditor and this was approved by shareholders at the 2019 AGM. KPMG were first appointed in 2010, initially as KPMG Audit plc, replacing Ernst & Young LLP.

The lead audit partner is rotated on a five-yearly basis. The current lead audit partner rotated onto 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 retendered 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 resolution to reappoint 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 40-42.

#### 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, legal and regulatory risk, health and safety, information security and privacy. The committee received reports on the following themes during the year:

- data security
- implementation of the general data protection regulation (GDPR)
- financial services regulated businesses, in particular implementation of the senior managers and certification regime
- financial controls, including treasury management and taxation.

A review and reset of the principal risks and the enterprise risk management framework has taken place. More details can be found on page 40. However, the committee noted that the actual implementation of more advanced processes arising from this review were yet to be embedded.

Nevertheless, the committee concluded that risk management processes were materially adequate and there were no material weaknesses requiring specific disclosure.

#### Effectiveness and efficiency of financial controls
Detail on the review of internal controls is in the introductory section of this report on the work of the committee and can be found on page 68.

### Internal audit
The Group Internal Audit function has an administrative reporting line to the CFO and an independent reporting line to me as Chair of the committee. The function has in place a co-sourcing arrangement which adds expertise and breadth to the work of the in-house audit team. The function is being led by a new Director of Group Internal Audit who was appointed in July 2019 who is leading a transformation of the department in order to provide assurance in an effective and efficient manner.

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 standards and policies; people management, particularly in regard to employee vetting; controls over system access; management of contract obligations; and demonstration of formal risk management. 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 Director of Group Internal Audit, 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.

**Anti-bribery and corruption**

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.

**Speak Up**

During 2019, we revised and strengthened our Speak Up (whistleblowing) approach. The Speak Up policy provides a framework for any worker to raise serious concerns at work in a responsible and effective manner. We introduced a revised policy across the whole of Capita, excluding Germany until new Speak Up legislation is finalised. This policy was also embedded into our revised Code of Conduct and both were communicated across Capita. To ensure that concerns are addressed in manner independent of a worker's business area, concerns can be raised through a facility provided by Expolink, a third party provider. Where concerns are raised, they are escalated, following a triage process performed by Expolink, to one of two contact points within Capita for further assessment and investigation: the Chief General Counsel or the Chief People Officer. Oversight of these arrangements is a matter reserved to the Board and it receives updates on the operation of the policy.

**Privacy**

Privacy, which includes compliance with the Data Protection Act 2018 and GDPR, continues to be a focus area for the Group. While there can be an overlap with information security, we maintain separate information security and privacy teams to ensure that there is appropriate focus on each area.

Following the external review of the Group's approach to privacy compliance in 2018, we have looked during 2019 to embed a first-line and second-line approach to privacy compliance, with the business units remaining primarily responsible for day to day privacy-related activities and, led by a Data Protection Officer (DPO), a central privacy team providing appropriate support and challenge. These assurance activities have included automating a privacy check list as part of the contract review committee's processes to ensure that all relevant steps have been implemented at contract win or renewal stage; communication of privacy policies; monitoring all data incidents to identify trends and to provide remediating actions; and providing training to the data protection leads and other key colleagues embedded within the business units. To support the revised control risk self-assessment (CRSA) approach, a revised privacy self-assessment questionnaire was implemented in 2019. The results and outputs of this questionnaire are being used to ensure that there is a continuing approach to making improvements, as appropriate.

**Matthew Lester**
Chair
Audit and Risk Committee
4 March 2020

## Group executive risk committee

The Group executive risk committee (ERC) assesses risk across all Capita's unregulated 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 Growth Officer (appointed to the committee in February 2020) and the six divisional executive officers. The Group Risk & Internal Audit Director has a standing invitation, and the non-executive directors have an open invitation, to attend all meetings. Meetings are chaired by either the CEO or CFO.

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

- Reviewing the residual risk profile, 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.
- Reviewing, and recommending for adoption, policies applicable to the Group's businesses.
- Considering escalations received from any divisional risk and compliance committee.
- Identifying items for the attention of the Board, Group Audit and Risk Committee or Group financial services risk committee.

The scope of the committee covers all unregulated businesses in all jurisdictions in which the Group operates.

## Group financial services risk committee

The Group financial services risk committee (FSRC) was reconstituted during the year. It complements the ERC by assessing risk across Capita's regulated businesses and also reports to the Audit and Risk Committee. The FSRC holds scheduled meetings on a quarterly basis. Membership currently comprises an independent non-executive (who is also independent chair of the board of Capita Employee Benefits Limited), the CFO and the Chief General Counsel. A second independent non-executive director is being recruited to chair the FSRC. The executive officers of those divisions containing regulated business, together with functional heads from Group Internal Audit and Group Risk & Compliance, have a standing invitation to attend all meetings.

The FSRC's role is similar to that of the ERC but with a specific focus on regulated business risk and compliance activities and issues, particularly:

- Enabling the functional heads from Group Internal Audit and Group Risk & Compliance to report on significant issues arising from FCA and PRA and non-UK FS regulated entities' monitoring and internal audit activity.
- Receiving updates on regulatory capital issues – eg internal capital adequacy assessment process (ICAAP).
- Reporting on key communications with the FCA and developments in the relationship.
- Receiving updates on conduct risk issues.
- Identifying items for the attention of the Board, Group Audit and Risk Committee or ERC.

During 2019, the ERC met four times and the FSRC met three times following its reconstitution during the year. Membership and meeting attendance are set out in the tables below. 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 |
|---|---|---|
| Patrick Butcher (Chair) | Chief Financial Officer | 4(4) |
| Jon Lewis | Chief Executive Officer | 3(4) |
| Aimie Chapple | Executive Officer, Customer Management | 1(1) |
| Mark Cook | Executive Officer, Technology Solutions | 1(1) |
| Andy Start | Executive Officer, Government Services | 1(1) |
| Chantal Free | Executive Officer, People Solutions | 1(1) |
| Jim Vincent | Executive Officer, Specialist Services | 3(4) |
| Chris Baker | Executive Officer, Software | 4(4) |
| Claire Chapman | Chief General Counsel | 4(4) |
| Rob Tolfts[1] | Group Commercial Director | 0(4) |
| Joe Hemming[2] | Former Executive Officer, Technology Solutions | 0(3) |
| Matthew Vallance[3] | Former Interim Executive Officer, Customer Management | 1(1) |
| Patrick Elliott[4] | Former Interim Executive Officer, Government Services | 3(3) |
| Mike Barnard[5] | Former Executive Officer, Customer Management | 0(1) |
| Erika Bannerman[6] | Former Executive Officer, People Solutions | 3(3) |
| Sue Williams[7] | Former Chief Risk & Compliance Officer | 3(4) |

1. Rob Tolfts nominated a deputy to attend all meetings on his behalf.
2. Joe Hemming nominated a deputy to attend meetings on his behalf.
3. Matthew Vallance was a member of the committee during his tenure as interim EO.
4. Patrick Elliott was a member of the committee during his tenure as interim EO.
5. Mike Barnard left Capita in May 2019.
6. Erika Bannerman left Capita in August 2019.
7. Sue Williams left Capital in February 2020.

**Group financial services risk committee:**

| Name of member | Title | Number of meetings attended |
|---|---|---|
| Babloo Ramamurthy (Chair)[1] | Independent Non-Executive | 3(3) |
| Jon Lewis[2] | Chief Executive Officer | 1(3) |
| Patrick Butcher (Chair)[3] | Chief Financial Officer | 3(3) |
| Claire Chapman | Chief General Counsel | 2(3) |

1. Babloo Ramamurthy chaired two FSRC meetings.
2. Jon Lewis was a member of the FSRC until its terms of reference were reviewed and updated in December 2019.
3. Patrick Butcher chaired one FSRC meeting.

# Directors' remuneration report

The report is split into three sections:

- The **annual statement** details how the committee discharged its roles and responsibilities including: the remuneration policy review; the committee's use of discretion on variable pay outcomes for 2019; and pay decisions for 2020.
- The **directors' remuneration policy** presents the proposed directors' remuneration policy which will be subject to a binding shareholder vote at the 2020 AGM.
- The **annual report on remuneration** sets out the remuneration arrangements and incentive outcomes for the year under review. The directors' remuneration report, excluding the policy, will be subject to an advisory shareholder vote at the 2020 AGM.

## Annual statement

I am pleased to present the directors' remuneration report for the year ended 31 December 2019, my first as Chair of the committee. The committee welcomes the changes introduced by the 2018 UK Corporate Governance Code (the Code) and has focused on embedding these changes throughout the year. As Sir Ian Powell notes in his introduction, while progress has been made with the multi-year transformation it has proved more challenging than anticipated and remuneration decisions on implementation of policy for 2020 have been taken in this context.

"High levels of engagement from all stakeholders have helped further align incentive plans with our business transformation."

**Georgina Harvey**
Chair
Remuneration Committee

Key activities of the committee during the year included:

- The review of the directors' remuneration policy for 2020, which included extensive shareholder consultation.
- A review of the application of discretion to override formulaic outcomes for variable pay.
- Consideration of executive pay arrangements and alignment with those for the wider workforce.

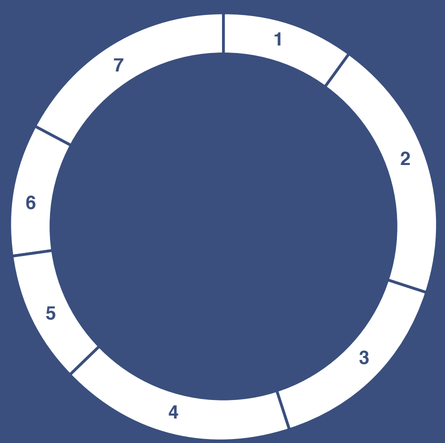
## How the committee operates

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 committee Chair, Chief People Officer and Group Reward Director 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 the committee's adviser. At each committee meeting the members may receive other reports and presentations covering wider workforce arrangements which include 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 Executive Committee.

### Remuneration Committee time allocation (%)




1 **10%** Governance
2 **20%** Executive directors' and Executive Committee members' remuneration
3 **15%** STIP
4 **18%** LTIP
5 **10%** Wider workforce
6 **10%** Shareholder/consultation feedback
7 **17%** Remuneration policy review

**Remuneration Committee membership and attendance**
All members of the committee are independent non-executive directors. The number of formal meetings held and the attendance by each member is shown in the table on page 56. The committee also held informal discussions as required. 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's terms of reference set out 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.

## Board changes in 2019

During 2019 the Board undertook a rigorous and thorough process to identify and appoint two non-executive employee directors to the Board. Shareholders were asked to approve employee director remuneration at the 2019 AGM and this will be formally included in the new policy. In summary, each non-executive employee director will be paid a fee of £64,500 per annum in addition to their contractual salary, benefits and incentives as an employee of the Group. Lyndsay Browne and Joseph Murphy were appointed to the Board with effect from 1 July 2019. Further details of their remuneration can be found on page 91.

John Cresswell stepped down as committee Chair on 30 September 2019, but remains on the Board as a non-executive director.

## Remuneration policy

The current remuneration policy was approved by shareholders at the 2017 AGM and therefore a new policy is required in 2020. The current policy can be found on the Company's website at www.capita.com/investors in the 2018 Annual Report. The committee continues to align its remuneration framework with Capita's strategy and culture to ensure that it drives conduct that is appropriate and in the long-term interests of the Company and its stakeholders.

Capita's transformation plan is underpinned by three imperatives: simplify, strengthen and succeed.

In transforming the business, the executive team have undertaken significant work to re-engineer Capita to:

- Improve the operational and financial performance of a number of legacy contracts.
- Invest in governance, people, systems, and processes necessary to better run the business model.
- Invest in propositions and the growth function, with a focus on those markets with attractive margins and strong, long-term structural growth trends as Capita evolves towards a more focused consulting, digital services and software business.

Having considered feedback from shareholders following the 2019 AGM, outcomes of shareholder consultations and changes introduced by the Code, the committee proposes the following changes to the remuneration policy:

- Enhanced shareholding guidelines (retention of vested shares). Executive directors will be expected to retain 100% of shares (net-of-tax) which vest under the deferred annual bonus plan (DAB) and long-term incentive plan (LTIP) until their shareholding guideline (300% of salary for the CEO and 200% of salary for the CFO) is achieved. The current policy only requires the executive directors to retain 50% of shares (net-of-tax) which vest.
- Shareholding guidelines (post-cessation). From the 2020 AGM, 100% of the relevant shareholding guideline (or the actual shareholding if lower at cessation) will continue to apply up to the first anniversary of the date of cessation. This will reduce to 50% of the guideline between the first and second anniversary of the date of cessation. In determining the relevant number of shares to be retained post cessation, shares acquired from own purchases, buyout awards and DAB/LTIP awards granted prior to the 2020 AGM will not be counted.
- The payments for loss of office policy has been strengthened. Going forward, the policy will require any payment in lieu of notice to be reduced for any period of time worked post notice being given or received. This change reflects the feedback received from shareholders following the 2019 AGM.

- Malus and clawback provisions will be enhanced to add additional triggers to the annual bonus, DAB and LTIP rules (including insolvency and corporate failure). Award documentation for new awards will be amended to strengthen enforceability.
- The policy has been updated to include non-executive employee director remuneration. This is to permit the Company to pay the employee directors a fee for their role on the Board while being entitled to receive all remuneration payable to them in connection with their ordinary employment with the Group.

In addition, the committee has ensured that the new policy and practices are consistent with the six factors set out in Provision 40 of the Code:

**Clarity** – Our policy is well understood by our senior executive team and has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during the recent consultation exercise).

**Simplicity** – The committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, a key objective of the committee is to ensure that our executive remuneration policies and practices are straightforward to communicate and operate. The 2020 policy and its implementation has been simplified where possible.

**Risk** – Our policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded via (i) the balanced use of both short term incentives and LTIPs which employ a blend of financial, non-financial and shareholder return targets, (ii) the significant role played by equity in our incentive plans (together with in-employment and post-cessation shareholding guidelines) and (iii) malus/clawback provisions.

**Predictability** – Our incentive plans are subject to individual grant caps, with our share plans also subject to stringent dilution limits.

**Proportionality** – There is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by incentive/'at-risk' pay, together with the structure of the executive directors' service contracts, ensures that poor performance is not rewarded.

**Alignment to culture** – Our executive pay policies are fully aligned to Capita's culture through the use of metrics in both the annual bonus and LTIP that measure how we perform against our financial and non-financial KPIs, including employee, client and supplier-related targets.

Pension provisions remain aligned with the workforce, capped at a maximum of 5% of base salary, therefore no changes have been made to the policy in respect of pension.

## Committee discretion

The committee retains the right to exercise discretion to override formulaic outcomes, to ensure that the level of bonus or award payable is appropriate. It may use its judgement to adjust outcomes downwards to ensure that any payments made reflect overall Company performance and the individual's contribution during the relevant period. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the Annual Report.

## Remuneration for 2019

### Annual bonus

Following an assessment of the performance against the adjusted PBT, free cash flow, organic revenue growth and strategic/personal annual bonus targets, the formulaic outturn produced an annual bonus award of 37.1% of the maximum for the CEO and 32% of the maximum for the CFO. However, following a quality of earnings review and consideration of the shareholder experience during 2019, the committee exercised its discretion and determined that no bonus would be paid to the executive directors in respect of 2019. Further details on bonus outturn can be found on pages 91–92.

### Vesting of 2017 LTIP award

The LTIPs awarded in 2017, which are due to vest in 2020, did not meet the EPS and ROCE performance targets and therefore will lapse in full; neither executive director holds such awards given both joined Capita after the 2017 grant date.

### Total remuneration

The committee is satisfied that total remuneration paid to the CEO and CFO in respect of 2019 is appropriate in light of Group performance, shareholder experience and internal pay data (ie CEO pay ratio and gender pay). The policy is considered to have operated as intended during 2019 in respect of performance and quantum, noting the negative discretion applied to the 2019 annual bonus payout detailed.

## Pay decisions for 2020

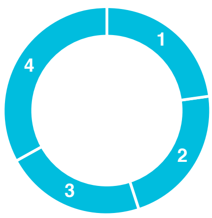
### Base salaries

Jon Lewis' base salary is fixed at £725,000 and will be reviewed again in 2021. Following a review of the pay strategy for the wider workforce the committee agreed that there would be no change in the base salary for Patrick Butcher for 2020 and it will remain at £430,000.

### Annual bonus

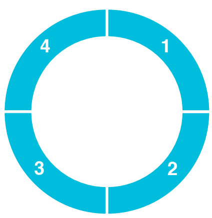
The committee has reviewed the annual bonus plan and taken on board feedback received from shareholders following the 2019 AGM. The proportion of the 2020 annual bonus based on strategic or personal measures will be reduced from one-third (as operated for 2019) to 25% of the annual bonus. This is a further reduction from the 40% operated in 2018. To reflect shareholder feedback, this element of the bonus will be based purely on strategic KPIs rather than the blend of strategic and personal objectives currently operated. The annual bonus financial measures and weightings for 2020 will be similar to those operated in 2019:

**2019 bonus** (%)




1 **23%** adjusted PBT
2 **22%** free cash flow
3 **22%** organic revenue growth
4 **33%** strategic/personal

**2020 bonus** (%)




1 **25%** adjusted PBT
2 **25%** free cash flow
3 **25%** organic revenue growth
4 **25%** strategic

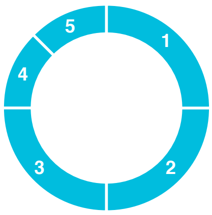
While the annual bonus targets for 2020 are currently considered to be commercially sensitive, full disclosure of the targets and performance against them will be provided in next year's annual report on remuneration. No changes will be made to the maximum bonus quantum (200% and 175% of salary maximum for the CEO and CFO respectively), on-target bonus potential (50% of maximum) or bonus deferral (50% of any bonus is deferred into shares for three years).

Any bonus payouts will be conditional upon Capita achieving a free cash flow underpin target. Additionally, if warranted by the circumstances at the time, the committee may consider exercising its discretion in relation to bonus payouts.

### Performance measures for 2020 LTIP

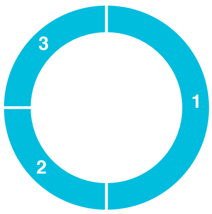
Having considered Capita's progress in respect of the transformation plan and feedback received from shareholders, we are proposing a revised matrix of LTIP performance measures for 2020. These closely reflect our strategic aims as detailed above and increase shareholder alignment. The 2019 LTIP measures and the proposed 2020 LTIP measures are illustrated below:

**2019 LTIP** (%)




1 **25%** EBIT margin
2 **25%** free cash flow
3 **25%** organic revenue growth
4 **12.5%** customer
5 **12.5%** employee

**2020 LTIP** (%)




1 **50%** relative TSR
2 **25%** adjusted EPS
3 **25%** responsible business scorecard

The proposed metrics for 2020 are as follows:

- Relative total shareholder return (TSR) 50% – following shareholder feedback and the importance of aligning executives with our shareholders, the committee feels that a share price-related performance metric is appropriate. Relative TSR is considered to be the most relevant metric here. As such, for 50% of the 2020 LTIP awards, 25% of this part will vest for median TSR increasing pro-rata to 100% of this part for upper quartile performance as measured against the constituents of the FTSE 250 (excluding investment trusts).
- Adjusted earnings per share (EPS) 25% – the inclusion of an EPS measure is considered a more complete measure of performance than EBIT margin and free cash flow and will support a drive to delivering sustainable growth. The committee is still in the process of agreeing the precise EPS target range. Full details of the targets will be set out in the RNS announcement issued immediately after the LTIP award is granted.
- Responsible business scorecard 25% – consistent with the 2019 LTIP award, the committee will continue to measure client (10% of the 2020 LTIP award) and employee engagement (10% of the 2020 LTIP award). An additional metric relating to how Capita ensures adherence to fair business terms with suppliers (5% of the 2020 LTIP award) will be introduced. These three metrics are considered important elements of our responsible business strategy which aims to ensure a better-quality business by creating better outcomes for all stakeholders.

No part of this award may vest unless the committee is satisfied that the level of vesting is consistent with the Company's underlying financial and operational performance. Additionally, if warranted by the circumstances at the time, the committee may consider exercising its discretion to override formulaic outcomes in relation to the vesting of the award.

No changes will be made to the maximum LTIP grant quantum (300% and 200% of salary maximum for the CEO and CFO respectively), although the committee will consider the prevailing share price at the time of grant in respect to the actual number of shares awarded, and the two-year post-vesting holding period will continue to be required.

### Target setting

The committee will adopt a more rigorous approach to target setting, performance assessment and disclosure. This will include: ensuring target setting supports the assessment of a range of performance outcomes; the introduction of an annual process for reviewing the underlying assumptions and assessing the level of challenge within our incentive plan targets; and the committee will assess progress towards the targets and undertake a thorough review of annual and three-year performance for the relevant incentive awards, which includes a quality of earnings review. Separately, the committee will review the overall construct of the remuneration package to ensure potential pay outcomes are reasonable and appropriate against different performance scenarios.

## Shareholder views

During 2019, the committee held a round table event with major shareholders to obtain their views on the proposed changes to the new remuneration policy being put to shareholder approval at the 2020 AGM and the proposed performance measures for the 2020 annual bonus and the LTIP award. This was followed by a letter containing our draft proposals which was sent to our 20 largest shareholders and the main investor representative bodies. Meetings were offered and were held with the majority of those contacted, and shareholders were generally very supportive of the changes being proposed for 2020. Consistent with good practice, the consultation exercise was concluded with a wrap up letter which set out the committee's final proposals and summarised the main areas of feedback Capita received.

We received a wide range of feedback which prompted the committee to make two changes to the proposals in respect of the implementation of the policy for 2020:

- To continue to focus on organic revenue as a metric for the annual bonus in 2020 rather than switch to an order intake measure. After considering shareholder views on the importance of organic revenue to the transformation strategy, the committee decided to retain the metric and upweight it slightly from 2019. Further details on the performance metrics for the annual bonus in 2020 can be found on page 89.
- To proceed with three responsible business scorecards metrics (employee, client and supplier) for 25% of the 2020 LTIP award rather than the four equally weighted metrics (employee, client, supplier and society) originally proposed. There was overall support from shareholders consulted for 25% of the LTIP award to be measured against responsible business scorecard measures. However, there was a preference for the employee and client metrics to have a greater weighting than the supplier and society metrics. The society measure is deemed relevant but it was agreed not to include it within the incentive arrangements at this stage of our transformation. As such, this has been reflected in the measures and weightings for the 2020 LTIP as detailed above.

The committee is grateful for the contribution and level of support received from shareholders during the consultation period.

### Employee engagement

In 2019, Jon Lewis regularly communicated with all employees, including on our 2018 financial results directing them to the 2018 Annual Report inclusive of the directors' remuneration report. Employees are able to submit any questions on the Company including in relation to pay and benefits online and during live employee briefings.

Two employee directors were appointed to the Board in 2019 and as part of their training and induction they met with the committee Chair and members. During this period the Board received regular updates and discussed various matters relating to remuneration, with the employee directors having full access to all papers presented to the committee. To allow the employee directors to settle into their roles a decision was taken to not appoint them as members of the Remuneration Committee during 2019. One employee director will be appointed to the committee in 2020 with the intention to ensure a workforce perspective with respect to remuneration is voiced to the very top of the organisation.

**Concluding thoughts**
As Capita continues to execute its strategy, the committee is satisfied that the remuneration policy, taking into account the proposed changes, will ensure that the management team is appropriately targeted and incentivised. The committee will continue to consult widely with shareholders to respond to their expectations of remuneration policy and reporting, and welcomes all input.

I hope you find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of this year's binding vote to approve the remuneration policy and of the advisory vote to approve the annual report on remuneration.

Finally, I would like to thank our shareholders for their ongoing support.

**Georgina Harvey**
Chair
Remuneration Committee
4 March 2020

## Remuneration policy

This part of the remuneration report sets out the revised remuneration policy (the policy) and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The policy has been developed in line with the principles of the UK Corporate Governance Code (the Code) and the views of our major shareholders. The policy will be put to a binding shareholder vote at the 2020 AGM and, subject to shareholder approval, will take formal effect from the conclusion of the AGM. The information provided in this section of the remuneration report is not subject to audit.

### Changes to the current policy

This revised policy is broadly consistent with the existing policy that was approved by shareholders at the 2017 AGM albeit it has been updated: (i) after considering shareholder feedback following the 2019 AGM; (ii) for the input from shareholders from extensive consultation; and (iii) for developments in corporate governance. The main changes to the policy are detailed in the annual statement on pages 79–80.

### Responsibilities and activities of the Remuneration Committee

The committee is responsible for determining and agreeing with the Board the remuneration policy for the executive directors, Executive Committee members and the Group Company Secretary, including setting the over-arching principles, parameters and governance framework and determining each remuneration package. In addition, the committee reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture. The committee also sets the Chairman's fee.

As part of the policy review process, the committee sought the views of the executive directors on changes to the existing policy. However, they participated in an advisory role and were not involved in the decision-making process.

In setting the remuneration policy for the executive directors, Executive Committee members and the Group Company Secretary, 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 strongly reflects performance.
- 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 shareholders. 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 seeks to engage directly with major shareholders and the main representative bodies should any material changes be proposed to the policy.

As detailed in the annual statement the committee held a roundtable event with major shareholders and consulted with shareholders on the proposed remuneration policy. Feedback received from this has been considered when drafting the new policy and is also reflected in the implementation of the policy.

### Consideration of our people

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. An employee director will attend the committee meetings as a member in 2020, with the intention to ensure a workforce perspective is heard at the very top of the organisation with respect to remuneration.

## Summary remuneration policy table

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

### Base salary

| 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.<br><br>The review takes into account:<br>• Salaries in similar companies and comparably-sized companies<br>• Economic climate<br>• Market conditions<br>• Group performance<br>• The role and responsibility of the individual director<br>• 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:<br>• Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for the broader workforce.<br>• 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).<br>• 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. |

### 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 and travel. Executive directors can also participate in all-employee share plans.<br><br>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.<br><br>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 |
|---|---|---|---|
| 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 in line with the wider workforce. | Not performance-related. |

### 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.<br><br>50% of any bonus earned is delivered in shares deferred for three years, with the remainder delivered in cash. Executive directors have the discretion to defer 100% of any bonus earned into shares.<br><br>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.<br><br>Malus and clawback provisions apply to all annual bonus and deferred bonus share awards for a period of up to three years after the determination of the annual bonus. | 200% of salary (CEO) and 175% of salary (CFO). | Executive directors' performance is measured over a one-year period relative to challenging targets for selected measures of Group financial, strategic or individual performance.<br><br>The majority of the bonus will be determined by measure(s) of Group financial performance.<br><br>A sliding scale is set for each Group financial measure: up to 25% of the bonus will be paid at threshold performance, 50% of the bonus will be paid at target performance, increasing to 100% for maximum performance.<br><br>The committee has discretion to override formulaic outcomes when determining the level of bonus pay-out. |

### 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.<br><br>To link reward to key longer-term business targets.<br><br>To encourage share ownership. | LTIP awards are usually granted in the form of nil cost options.<br><br>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.<br><br>Vesting is dependent on the achievement of performance conditions usually measured over a three-year period.<br><br>Shares resulting from vesting of awards granted during or after 2019 must be retained for a further two years after vesting.<br><br>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.<br><br>Malus and clawback provisions apply to all LTIP awards for a period up to the fifth anniversary of grant. | Shares under award with a market value (as determined by the committee): 300% of salary (CEO) and 200% of salary (CFO). | 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. Group financial measures may include TSR, EPS, revenue growth or any other financial measure the committee deems appropriate at the time of the award. Strategic measures will be set and assessed through responsible business scorecards metrics which may include client, employee, supplier or any other strategic measure the committee deems appropriate.<br><br>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.<br><br>25% of the awards vest at a threshold vesting point, rising to 100% vesting at a maximum vesting point.<br><br>The committee has discretion to override formulaic outcomes when determining the level of vesting of LTIP awards. |

### Shareholding guidelines

| Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|
| To align interests of management and shareholders and promote a long-term approach to performance and risk management. | Shareholding guidelines require executive directors to reach a specified shareholding.<br><br>Executive directors are required to retain 100% of any deferred bonus or LTIP shares acquired on vesting (net of tax) until the guideline level is achieved. 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 still subject to performance conditions are not included.<br><br>Post cessation guidelines will apply following the 2020 AGM. In determining the relevant number of shares to be retained post cessation, shares acquired from own purchases, any buyout awards and deferred annual bonus/LTIP awards granted prior to the 2020 AGM will not be counted. | **In employment:**<br><br>300% of salary (CEO) and 200% of salary (CFO).<br><br>**Post cessation:**<br><br>100% of the relevant guideline between cessation and the first anniversary of cessation, 50% of the relevant guideline between the first and second anniversary of cessation (or 100%/50% respectively of the actual shareholding if the guideline has not been met at cessation). | Not performance-related. |

### Non-executive director (NED) fees

| Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|
| Market competitive fees are set 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.<br><br>NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as:<br><br>• Senior independent director<br>• Audit and Risk Committee chair<br>• Remuneration Committee chair<br>• The chairman of the Board receives an all-inclusive fee.<br><br>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.<br><br>An aggregate sum under the Company's articles of association (currently £1,000,000 per annum) or such larger amount as the Company may by ordinary resolution decide. | Not performance-related. |

### Non-executive employee director remuneration

| Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|
| Market competitive fees are set to recognise the time commitment, authority in strategic decision making and duties, which are equivalent to the Company's NEDs.<br><br>Their remuneration in respect of their employment with the Group should not be impacted by their directorship of the Company. | A basic fee (and additional fees for any further Board responsibilities) equivalent to that paid to the NEDs. Where travel for business purposes is recognised as a taxable benefit, the grossed-up cost of such travel as a benefit.<br><br>For the avoidance of doubt, each employee director may additionally receive any and all remuneration payable to them in connection with their ordinary employment with the Group. | Any payment to any employee director in respect of their directorship with the Company (and for the avoidance of doubt excluding any remuneration payable to them in connection with their ordinary employment with the group) will count towards the Company's overall cap on directors pay under its articles of association (currently £1,000,000 per annum). | Not performance-related. |

Changes and additions to the policy have been detailed on pages 79–80 of the annual statement.
The differences between the directors' remuneration policy and employees remuneration is detailed on page 82.
The annual bonus performance measures are Group financial, strategic or individual measures which are selected annually 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. Further details of the variable pay measures and targets can be found on page 80–81 of the annual statement.
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 (eg 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 (eg 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). If the Committee were to make an adjustment of this sort, a full explanation would be provided in the next remuneration report
- to apply malus and clawback provisions, see page 87 for further details
- to apply discretion to override formulaic outcomes where this is considered appropriate.

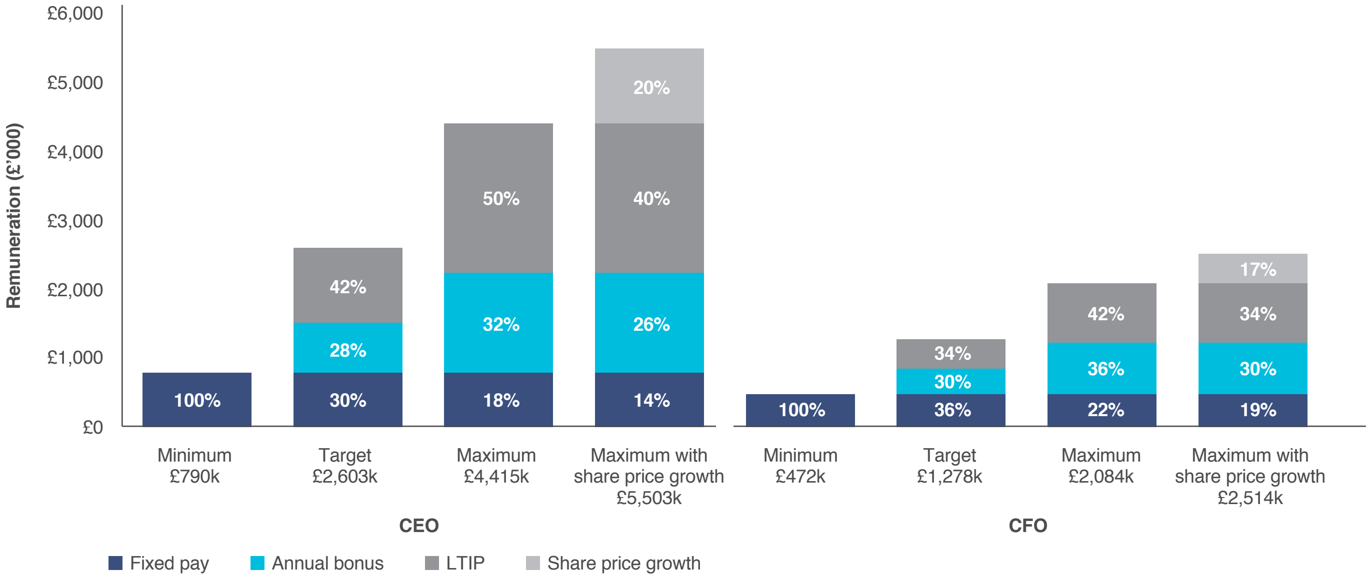
The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before the 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 (ii) 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 retains discretion to 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.

## Illustrations of the application of our remuneration policy

The value and composition of the executive directors' remuneration packages under the policy for the year ending 31 December 2020 at a minimum, target and maximum performance level are set out in the graphs below.

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

Each graph 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.




Fixed pay includes the base salary, benefits and pension (ie the fixed elements of remuneration).

The scenarios in the above graphs are based on the following:

| | Minimum | On-target | Maximum | Maximum with share price increase |
|---|---|---|---|---|
| Fixed pay | Base salaries as at 1 January 2020 (unchanged from 2019)<br>Value of benefits as detailed in the single figure table for 2019<br>5% of salary pension | | | |
| Annual bonus<br>CEO max: 200% of salary<br>CFO max: 175% of salary | –% | 50% of max | 100% of max | 100% of max |
| LTIP<br>CEO max: 300% of salary<br>CFO max: 200% of salary | –% | 50% of max | 100% of max | 100% of max with a 50% share price growth assumption on LTIP awards[1] |

1. It has been assumed that the performance conditions attached to the 2020 LTIP have been met in full over a three-year performance period and the Company share price has appreciated by 50% since grant.

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

The package quantum is considered to be appropriate in light of the skills and experience of the management team, and the size and complexity of Capita. Shareholders will note that the majority of the CEO and CFO's packages are performance-linked; the committee will ensure potential pay outcomes are reasonable and appropriately aligned with the shareholder experience.

## Malus and clawback

Malus and clawback provisions apply to all incentive awards granted to executive directors. These provisions permit the committee to reduce the size of awards or 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:

- material misstatement of a Group company's financial results
- a participant deliberately misleads relevant parties regarding financial performance
- serious misconduct or conduct which causes significant financial loss
- overpayments due to material abnormal write-offs of an exceptional basis
- an error was made, or inaccurate or misleading information was used to determine the value of an award
- serious reputational damage
- material failure of risk management
- corporate failure or the occurrence an insolvency event.

## Directors' recruitment and promotions

The committee considers 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 was appointed, the committee would seek to align their remuneration package with other executive directors in line with the policy table. However, flexibility is retained to offer additional remuneration on appointment outside the policy if the committee believe it may be appropriate to make 'buyout' 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 (within an agreed time limit) 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 for 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 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. The Company can make a series of phased payments which are paid in monthly instalments, subject to mitigation. This mechanism allows for the amount of any phased payments to be reduced by the income from any alternative position secured by the former director during the phased payments period.

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 AGM.

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. Any payment in lieu of notice will be reduced for any period of time worked post notice being given or received.

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.

On cessation, executive directors' share plan entitlements will be determined in accordance with the rules of the relevant plan.

Unvested deferred share awards will normally lapse on the earlier of notice being given/received and cessation. However, the committee has discretion to allow awards to instead continue to vest in full on the normal vesting date (or earlier at the discretion of the committee).

Under the LTIP, unvested awards will normally lapse on the earlier of notice being given/received and cessation. However, the committee has discretion to allow awards to instead continue to vest on the normal vesting date (or earlier at the discretion of the committee) to the extent performance conditions attached to the relevant awards are satisfied at vesting. In such cases 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 (unless rolled over) vest, to the extent that any performance conditions attached to the relevant awards have been achieved, scaled back pro-rata for the proportion of the performance period elapsed to the change of control (each unless the committee determines otherwise). Unvested deferred share awards would vest in the event of a change of control (unless rolled over).

Shares held within the Share Ownership Plan will be removed from the Plan and dealt with in accordance with the scheme rules and HMRC guidelines.

### 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.

### Non-executive employee directors' terms of engagement

Non-executive employee directors are appointed by letter of appointment for an initial period of two to three years. Each appointment is terminable by one months' written 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) Regulations 2008 (as amended) 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 2020 AGM. The information on pages 88–97 has been audited as indicated.

### External advice received

Deloitte LLP was 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 £47,400 in fees during 2019 for these services (charged on a time plus expenses basis). In addition, other practices of Deloitte, separate from the executive remuneration practice, have provided services to the Group in respect of tax, advice to internal audit and other ad hoc advisory projects during the year.

In addition, the committee commissioned FIT Remuneration Consultants LLP to provide advice in respect of the policy review and shareholder consultation exercise. FIT was paid £29,823 in fees during 2019 for these services, charged on a time plus expenses basis.

Both Deloitte and FIT are founding members of the Remuneration Consultants Group and as such, both operate voluntarily under the code of conduct in relation to executive remuneration consulting in the UK. The fees were considered appropriate for the work undertaken. The committee considers Deloitte's and FIT's advice on remuneration to be independent and objective, and neither have any connection with the Company or individual directors.

The committee also consulted with Jon Lewis, Patrick Butcher, the Chief People Officer and the Group Reward Director to provide further information to the committee on the performance and proposed remuneration for the executive directors and other senior management, but not in relation to their own remuneration.

The work of the Remuneration Committee is detailed in the annual statement on pages 78–82.

## Shareholder voting at the AGM

The 2019 directors' remuneration report will be presented to shareholders at the annual general meeting in May 2020. At the AGM in 2019, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2018 and the vote on the 2017 policy is set out below.

Following the AGM, the Board and Remuneration Committee carried out a review of the feedback received from shareholders. The main concerns centred around the payments for loss of office, the annual bonus (metrics, weightings and 2018 award levels), and long-term incentive provision (performance metrics). An update was published on the Company website within six months of the AGM.

Given that the current remuneration policy reaches the end of its three-years in 2020, the committee has carried out a review of the policy and its implementation as detailed on pages 82–88. This review has taken into consideration the feedback received in respect of the 2019 AGM and incorporated developments in governance and good practice more generally.

| | Votes cast 'for' | Votes cast 'against' | Abstentions[1] |
|---|---|---|---|
| **Remuneration report: for the year ended 31 December 2018** | 789m | 297m | 289m |
| | 72.7% | 27.3% | – |
| **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.

## Statement of implementation of the remuneration policy for 2020

A summary of how the committee intends to operate the remuneration policy for 2020 is detailed below. The operation of the policy will not be dependent on shareholder approval of the proposed policy detailed on pages 83–86, unless otherwise stated.

| Component | Jon Lewis | Patrick Butcher | Performance targets |
|---|---|---|---|
| Base salary[1] | £725,000 | £430,000 | – |
| Pension allowance (% of salary) | 5% | 5% | – |
| Annual bonus max[2] (% of salary) | 200% | 175% | Adjusted PBT (25%), free cash flow (25%), organic revenue growth (25%), strategic (25%) |
| LTIP[3] (% of salary) | 300% | 200% | Relative TSR (50%), adjusted EPS (25%), responsible business scorecard (25%) |

1. Base salaries will be reviewed for both Jon Lewis and Patrick Butcher in 2021.
2. Subject to a free cash flow underpin for 2020.
3. Awards will vest subject to assessment by the committee of the underlying financial and operational performance of Capita over the three-year period to 31 December 2022.

## Annual bonus for 2020

The CEO's maximum bonus opportunity for 2020 will be 200% of base salary and the CFO's maximum bonus opportunity for 2020 will be 175% of base salary, with 50% of any bonus deferred into shares for three years.

As explained in the Remuneration Committee Chair's statement, the executive director bonus plan for 2020 continues to align with the transformation plan, with a combination of financial and non-financial objectives that support the delivery of the Group's strategy. Accordingly, the following weightings and measures have been agreed by the committee. Note that the weighting on non-financial measures has been reduced from 33% in 2019 to 25% in 2020, and the weighting on financial measures has been increased accordingly from 67% to 75%.

| | Weighting | |
|---|---|---|
| | **Jon Lewis** | **Patrick Butcher** |
| **Group financial performance measures**[1] (Adjusted PBT, free cash flow, organic revenue) | 75% | 75% |
| **Group strategic KPIs** | 25% | 25% |

1. Equally weighted at 25%.

The committee may consider exercising discretion to override formulaic outcomes on annual bonus payouts.

No payment would be made if Capita failed to achieve a free cash flow target for 2020.

Details of the Group strategic KPIs and the targets for the Group financial performance measures are considered commercially sensitive by the Board and so will be disclosed retrospectively in the 2020 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 2020

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 committee of the underlying financial and operational performance of Capita over the three-year period to 31 December 2022 (the underpin), and (ii) subject to satisfaction of the underpin, relative TSR, adjusted EPS and responsible business scorecard over the same three-year period to 31 December 2022.

Performance measures, weighting and targets for the 2020 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 | Relative TSR | 50% | Median TSR performance vs the constituents of the FTSE 250 (excluding investment trusts) | Pro-rating vesting between median and upper quartile performance on a straight line basis between 25% and 100%. | Upper quartile TSR performance vs the constituents of the FTSE 250 (excluding investment trusts) |
| | Adjusted EPS | 25% | The EPS targets, which will be disclosed in detail in the RNS at the time of grant, will straddle prevailing analysts' forecasts and a maximum payout under this part of the award will require above-expectation earnings performance. While the targets will be based on adjusted EPS, the committee will:<br>• commission a quality of earnings report to better understand the underlying earnings performance; and<br>• take a step back and review the ultimate vesting level against the EPS targets (and the total vesting level more generally when all the LTIP targets have been assessed) in line with good practice to ensure that any payouts are commensurate with the shareholder experience over the vesting period. | | |
| | Responsible business scorecard: | | | | |
| | Client | 10% | 3 point swing in NPS | 6 point swing in NPS | 9 point swing in NPS |
| | Employee | 10% | 3 point swing in NPS | 6 point swing in NPS | 9 point swing in NPS |
| | Suppliers adherence to prompt payment code | 5% | | maintain current | exceed current |

A straight line vesting occurs between these points.

Performance ranges have been set with reference to external benchmarks and historic performance data where available and 'target' is designed to be stretching but achievable.

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). If 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 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.

## Fees for the Chairman, non-executive directors and employee directors

A summary of the fees for 2020 are as follows:

| | Annual fee from 1 January 2020 |
|---|---|
| **Sir Ian Powell, Chairman**[1] | £325,000 |
| **Gillian Sheldon, Senior Independent Director** | £75,000 |
| **Matthew Lester, Audit and Risk Committee Chair** | £75,000 |
| **Georgina Harvey, Remuneration Committee Chair** | £75,000 |
| **John Cresswell** | £64,500 |
| **Andrew Williams** | £64,500 |
| **Baroness Lucy Neville-Rolfe** | £64,500 |
| **Lyndsay Browne**[2] | £64,500 |
| **Joseph Murphy**[2] | £64,500 |

1. The Chairman's fee was reviewed in 2019 and the fee remains unchanged.
2. Subject to shareholder approval of the new remuneration policy.

## Directors' remuneration earned in 2019 – single-figure table (audited)

The table below summarises directors' remuneration received in 2019.

### Single figure remuneration

| | | Base salary and fees | Benefits | Pension or pension allowance | Annual bonus[3] | LTIP | LTIP (buy-out award) | Total remuneration |
|---|---|---|---|---|---|---|---|---|
| Sir Ian Powell | 2019 | 325,000 | 28 | – | – | – | – | 325,028 |
| | 2018 | 325,000 | 347 | – | – | – | – | 325,347 |
| Jon Lewis[1] | 2019 | 725,000 | 28,428 | 36,250 | – | – | – | 789,678 |
| | 2018 | 725,000 | 24,809 | 36,250 | 1,228,150 | – | – | 2,014,209 |
| Patrick Butcher[2] | 2019 | 430,000 | 19,556 | 21,500 | – | – | 305,363 | 776,419 |
| | 2018 | – | – | – | – | – | – | – |
| Gillian Sheldon | 2019 | 75,000 | – | – | – | – | – | 75,000 |
| | 2018 | 75,000 | 153 | – | – | – | – | 75,153 |
| Matthew Lester | 2019 | 75,000 | – | – | – | – | – | 75,000 |
| | 2018 | 64,500 | 770 | – | – | – | – | 65,270 |
| Georgina Harvey[4] | 2019 | 18,750 | – | – | – | – | – | 18,750 |
| | 2018 | – | – | – | – | – | – | – |
| John Cresswell[5] | 2019 | 72,375 | – | – | – | – | – | 72,375 |
| | 2018 | 64,500 | 229 | – | – | – | – | 64,729 |
| Andrew Williams | 2019 | 64,500 | – | – | – | – | – | 64,500 |
| | 2018 | 64,500 | 154 | – | – | – | – | 64,654 |
| Baroness Lucy Neville-Rolfe | 2019 | 64,500 | 251 | – | – | – | – | 64,751 |
| | 2018 | 64,500 | 13 | – | – | – | – | 64,513 |
| Lyndsay Browne[6] | 2019 | 32,250 | – | – | – | – | – | 32,250 |
| | 2018 | – | – | – | – | – | – | – |
| Joseph Murphy[6] | 2019 | 32,250 | – | – | – | – | – | 32,250 |
| | 2018 | – | – | – | – | – | – | – |

1. Jon Lewis is also a non-executive director of Equinor ASA and received and retained a fee of NOK 594,795 for the period 1 December 2018 – 31 November 2019. The committee acknowledges this role can broaden his experience and knowledge to Capita's benefit.
2. Patrick Butcher commenced employment with Capita on 10 December 2018 and became an executive director on 1 January 2019; accordingly, his 2018 remuneration has not been included in the single figure table for 2018 as payments during this period were not in respect of an agreement to perform qualifying service. On 11 December 2018, Patrick Butcher received a buyout award of 288,078, the value of this award has been calculated using the grant price of £1.06. Further details can be found on page 94.
3. 50% of Jon Lewis and Patrick Butcher's bonuses would have been deferred into shares under the deferred annual bonus plan, had downward discretion not been applied and a bonus been awarded.
4. Georgina Harvey was appointed Remuneration Committee Chair on 1 October 2019.
5. John Cresswell stepped down as Remuneration Committee Chair on 30 September 2019, but remains a non-executive director of the Board.
6. Lyndsay Browne and Joseph Murphy were appointed to the Board as employee directors on 1 July 2019. In addition to their fee as a non-executive employee director both received earnings from Group as an employee amounting to £44,897 and £34,245 respectively for the period 1 July 2019 – 31 December 2019. As part of their participation in the Capita Share Ownership Scheme Lyndsay Browne received 60 matching shares (£88.63) and Joseph Murphy received 66 matching shares (£91.73). The value of the matching shares is the sum of the cost of purchase over the period 1 July 2019 – 31 December 2019.

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.

No director waived any fees or salary for 2019.

## Annual bonus for 2019 (audited)

The maximum annual bonus opportunity for 2019 was 200% of salary for Jon Lewis and 175% of salary for Patrick Butcher. The annual bonus that could be paid to executive directors in respect of 2019 performance was determined by a combination of Group financial performance alongside an adjusted PBT threshold target underpin and executive directors' personal contributions. 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. Details of performance against the financial and personal/strategic targets are set out below.

### Financial targets (67% of the bonus)

| | Financial performance weighting | Threshold target performance (25%) | On-target performance (50%) | Maximum performance (100%) | Actual performance | Achievement against financial performance weighting |
|---|---|---|---|---|---|---|
| Adjusted[1] PBT (excludes business exits) | 23% | £265m | £280m | £305m | £275.0m | 9.7% |
| Adjusted[1] free cash flow | 22% | £(40)m | £0m | £40m | £(61.3)m | –% |
| Adjusted[1] revenue (external only) | 22% | £3,576m | £3,682m | £3,868m | £3,647.4m | 9.2% |
| Financial metrics bonus payout | | | | | | 18.9% |

1. Refer to alternative performance measures on pages 187–188.

**Personal/strategic targets (33% of the bonus)**

Achievement against the strategic and personal objectives represented 33% of the total annual bonus opportunity applicable to each of the executive directors. The objectives were focused on delivery of the three strategic elements of the transformation: simplify, strengthen and succeed.

### Jon Lewis

| Objectives | Assessment |
|---|---|
| • Delivering the core transformation workstreams to plan resulting in improved cost competitiveness to deliver improved financial performance and enhanced ability to win new business. | • Delivered significant change as part of transformation, with cost savings of £105m year to year.<br>• Built one of the UK's largest centres of automation excellence.<br>• Rolled out a new operating model. |
| • Demonstrating how our business creates better outcomes for our environment, our communities, our people, our suppliers and our clients. | • A 5.9% reduction in carbon footprint from 2018.<br>• 23,890 young people supported with employability skills and £2.8m of community investment.<br>• Commitment to pay all directly employed staff the real living wage by 1 April 2020.<br>• 97% of Capita's reported supplier payments were made within 60 days in FY19 in line with the prompt payment code. |
| • Deliver growth. | • Investment has been made in foundations that will drive long-term growth, including investing in client management, sales process and the consulting organisation to create long term growth opportunities.<br>• However, new contract wins and key renewals have been offset by decline in volumes and slower than anticipated progress in overall return to growth. |

### Patrick Butcher

| Objectives | Assessment |
|---|---|
| • Strengthen the balance sheet and clarify capital allocation policy. | • The revolving credit facility was successfully renewed and extended in December 2019, which together with £150m of additional borrowing facilities provides the necessary liquidity for the Group.<br>• Plans to refinance maturing debt in 2020 are well advanced. |
| • Drive an improvement in the enterprise wide risk management systems and culture across Capita. | • Good progress made in developing the risk management framework.<br>• Reviewed the principal risks to align them more closely with the Group strategy. |
| • Drive cultural, process and systems change across the finance function through the Smarter Faster Finance programme. | • The planned go-live of an upgrade to our financial systems was deferred to enable us to assess the impact of potential future changes in the business operating model.<br>• Continued investment in shared service centres and offshoring and in making improvements to the Group's existing reporting systems, processes and controls. |
| • Deliver growth. | • Investment has been made in foundations that will drive long-term growth, including investing in client management, sales process and the consulting organisation to create long term growth opportunities.<br>• However, new contract wins and key renewals have been offset by decline in volumes and slower than anticipated progress in overall return to growth. |

## Summary of total 2019 bonus awards

| | Jon Lewis | | Patrick Butcher | |
|---|---|---|---|---|
| | % of max | % of salary | % of max | % of salary |
| Total financial | 18.9 | 25 | 18.9 | 22 |
| Personal/strategic | 18.2 | 36 | 13.1 | 23 |
| Total (%) | 37.1 | 74 | 32 | 56 |
| Total bonus (£) | 536,500 | | 240,800 | |
| Total bonus (£) post remuneration committee discretion | – | | – | |

**Committee discretion**

Notwithstanding that the financial and personal/strategic targets were partially met, the committee exercised downward discretion to reduce the bonus awards for Jon Lewis and Patrick Butcher to nil. This decision was made after a review of the quality of earnings for 2019 and after consideration of the shareholder experience during the year.

## Long-term incentive awards in 2019 (audited)

| Name of director | Number of shares awarded | (£) Face value of LTIP award[1] | Percentage of salary[2] |
|---|---|---|---|
| **Jon Lewis** | 1,782,786 | 2,175,000 | 300% |
| **Patrick Butcher** | 704,918 | 860,000 | 200% |

1. The date of the grant was 21 March 2019. It was previously disclosed that the committee would take the higher of the closing price on the day immediately prior to the award,or the post-rights issue price of £1.22, however, due to a closed period the grant was not made the day after announcements (15 March 2019) as originally intended. Therefore, the committee deemed it appropriate to assess the close price preceding the original intended grant date of £1.19 against the post-rights issue price of £1.22. The committee agreed the theoretical ex-rights price of £1.22 calculated on 10 May 2018 be used to determine the number of shares.
2. Percentage calculated using base salary at date of award (Jon Lewis – £725,000; Patrick Butcher – £430,000).

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 2021 (the underpin), and (ii) subject to satisfaction of the underpin, free cash flow, EBIT margin, organic revenue growth, client satisfaction and employee engagement performance over the same three-year period to 31 December 2021. 25% of LTIP awards vest for achieving threshold performance. Performance targets for the 2019 award were set following consultation with major shareholders. Full details of the performance conditions relating to these awards are outlined on page 95.

## Directors' interests and shareholding guidelines (audited)

In line with the 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. 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. Post cessation shareholding guidelines proposed in the new remuneration policy for 2020 will require executive directors to retain 100% of the relevant guideline (or the actual shareholding if lower at cessation) until the first anniversary of the date of cessation. This will reduce to 50% of the guideline between the first and second anniversary of the date of cessation.

| Director | Beneficially held interests at 31 December 2019[1] | Beneficially held interests at 31 December 2018 | Interests in share incentive schemes, awarded without performance conditions at 31 December 2019 | Interests in share incentive schemes, awarded without performance conditions at 31 December 2018 | Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2019 | Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2018 | Interests in share option schemes where performance/ vesting conditions have been met but not exercised at 31 December 2019 | Interests in share option schemes where performance/ vesting conditions have been met but not exercised at 31 December 2018 | Percentage of shareholding target requirement at 31 December 2019 |
|---|---|---|---|---|---|---|---|---|---|
| **Sir Ian Powell** | 30,000 | 30,000 | – | – | – | – | – | – | – |
| **Jonathan Lewis** | 403,655 | 402,030 | 516,029 | – | 3,755,562 | 1,972,776 | – | – | 50% |
| **Patrick Butcher**[2] | 121,243 | – | 187,167 | 288,078 | 704,918 | – | 100,911 | – | 51% |
| **Gillian Sheldon** | 12,500 | 12,500 | – | – | – | – | – | – | – |
| **Matthew Lester** | 21,745 | 21,745 | – | – | – | – | – | – | – |
| **Georgina Harvey** | – | – | – | – | – | – | – | – | – |
| **John Cresswell** | 20,500 | 10,500 | – | – | – | – | – | – | – |
| **Andrew Williams** | 100,000 | 100,000 | – | – | – | – | – | – | – |
| **Baroness Lucy Neville-Rolfe** | 13,842 | 13,842 | – | – | – | – | – | – | – |
| **Lyndsay Browne** | 1,447 | – | – | – | – | – | – | – | – |
| **Joseph Murphy** | 2,218 | – | – | – | – | – | – | – | – |

1. Beneficially held interests includes those held by connected persons.
2. Patrick Butcher's interests in share incentive schemes without any performance conditions relate to his buy-out award he received in 2018. Further details can be found on page 94.

Between the end of the financial year and 2 March 2020, Jon Lewis, Lyndsay Browne and Joseph Murphy acquired 218 shares, 221 shares and 146 shares respectively under the Capita Share Ownership Plan, increasing their beneficial interest in ordinary shares of the Company to 403,873, 1,668 and 2,364 respectively. Although Capita does not have a formal policy on hedging shares, executive and non-executive directors attest annually they have not pledged any shares held in the Company.

## Share plans (audited)

### 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.

**Unvested DAB deferred/restricted awards at 31 December 2019**

| | Number of shares | |
|---|---|---|
| Name of director | 2019 award[1] | Total |
| Jon Lewis | 516,029[2] | 516,029 |
| Patrick Butcher | n/a | n/a |

1. Jon Lewis and Patrick Butcher joined Capita on 1 December 2017 and 10 December 2018 respectively, therefore, were not eligible for bonuses in 2017 and 2018 (in respect of 2016 and 2017 performance). Patrick Butcher also was not eligible for a bonus in 2019 (in respect of 2018 performance).
2. The value of the 2019 deferred award awarded on 21 March 2019 was included in the annual bonus value in the 2018 single-figure table. The close share price on 14 March 2019 of £1.19 was used to determine the number of shares.

### 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 2019**

| | Number of shares | | |
|---|---|---|---|
| Name of director | 2018 award[1] | 2019 award | Total |
| Jon Lewis | 1,972,776 | 1,782,786 | 3,755,562 |
| Patrick Butcher | n/a | 704,918 | 704,918 |

1 LTIP figures for 2018 have been adjusted to reflect the effect of the rights issue.

The performance criteria set for the 2017 LTIP as detailed on page 94 have not been met and the award will not vest and will lapse in full.

**Unvested LTIP (buyout) remuneration awards at 31 December 2019**

| | Number of shares |
|---|---|
| Name of Director | 2018 award |
| Patrick Butcher | 187,167 |

Patrick Butcher was granted a buy-out award as part of his remuneration package on appointment which will vest in two tranches, subject to continued employment. Tranche 1 vested in full on 15 November 2019; 100,911 shares were made available to him to exercise. Tranche 2 will vest on 15 November 2021, subject to continued employment.

### Performance criteria

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<br>Vesting percentage: 18.75%–75% of award<br>Straight-line vesting occurs between these points. |
| | ROCE – 25% of the award is measured on average ROCE | Average ROCE: 11%–15%<br>Vesting percentage: 6.25%–25% of award<br>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 |

### 2019

| 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. | 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.

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 2.21% of the Company's share capital at 31 December 2019.

## 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 2019, all non-executive directors were considered independent of the Company.

| Non-executive directors | Date of joining the Board | Expiry date of current appointment |
|---|---|---|
| **Sir Ian Powell** | 1 September 2016 | 31 December 2022 |
| **Gillian Sheldon** | 1 September 2012 | 31 August 2020 |
| **Matthew Lester** | 1 March 2017 | 28 February 2023 |
| **Georgina Harvey** | 1 October 2019 | 30 September 2022 |
| **John Cresswell** | 17 November 2015 | 16 November 2021 |
| **Andrew Williams** | 1 January 2015 | 31 December 2020 |
| **Baroness Lucy Neville-Rolfe** | 6 December 2017 | 5 December 2020 |

### Non-executive employee directors' terms of engagement

| Employee non-executive directors | Date of joining the Board | Expiry date of current appointment[1] |
|---|---|---|
| **Lyndsay Browne** | 1 July 2019 | 30 June 2022 |
| **Joseph Murphy** | 1 July 2019 | 30 June 2021 |

1. The terms of engagement for the non-executive employee directors is such that the Board can commence its search for a new employee director every 18 months, with an existing employee director remaining on the Board to assist the transition period for the new appointment.

## Payments to former directors (audited)

No payments (other than regular pension benefits commenced in previous years, medical insurance cover and legacy share plan maturities which were reported in previous years) were made during the year ended 31 December 2019 to any past director of the Company.

The 2017 LTIP lapsed in full for Nick Greatorex, Vic Gysin and Chris Sellers.

## Payments for loss of office (audited)

No payments were made in respect of loss of office to directors during the year ended 31 December 2019.

## Percentage change in remuneration levels

The table below shows change in base compensation, benefits and annual bonus for the CEO in the 2019 financial year, compared to the average for all employees:

| | CEO[1] | | All employees |
|---|---|---|---|
| | At 31 December 2019 £ | % change 2019 v 2018 | % change 2019 v 2018 |
| **Base compensation** | 725,000 | – | 4.29% |
| **Benefits** | 28,428 | 14.6% | 19.39% |
| **Bonus** | – | (100.0)% | 41.8% |

1. CEO figures represent those disclosed in the single figure table on page 91.

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

## CEO pay ratio

The table below compares the 2019 single total figure of remuneration for the CEO with the Group's employees paid at the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile) of its UK employee population. As outlined on page 91, the CEO's 2019 single figure contains no bonus or LTIP values.

| Year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| 2019 | Option B | 41:1 | 25:1 | 14:1 |

The remuneration figures for the employee at each quartile were determined with reference to 31 December 2019.

Due to the complexity of Capita's corporate and workforce structure, Option B was used to calculate these figures. The committee believes that this approach provides a fair representation of the CEO-to-employee pay ratios and is appropriate in comparison to alternative methods, balancing the need for statistical accuracy with internal operational constraints. Under this option, the latest available gender pay gap data (i.e. from April 2019) was used to identify the best equivalent for three Group UK employees whose hourly rates of pay are at the 25th, 50th and 75th percentiles for the Group. A full-time equivalent total pay and benefits figure for the 2019 financial year was then calculated for each of those employees. This was also sense checked against a sample of employees with hourly pay rates either side of the identified individuals to ensure that the identified employees reflect the best equivalents for each quartile. The pay ratios outlined above were then calculated as the ratio of the CEO's single figure to the total pay and benefits of each of these employees.

Each employee's total pay and benefits were calculated on a full-time and full-year equivalent basis using the single figure methodology, with the exception of the annual bonus where the amount paid during the year was used (i.e. in respect of the 2018 financial year) as 2019 employee bonuses had not yet been determined at the time this report was produced. No adjustments were made to the total pay and benefits figures (other than the approximate up-rating of pay elements where appropriate to achieve full-time and full-year equivalent values) and no components of pay have been omitted.

| | 25th percentile (p25) | Median (p50) | 75th percentile (p75) |
|---|---|---|---|
| Salary | £18,887 | £29,493 | £53,846 |
| Total pay and benefits | £19,147 | £31,708 | £57,049 |

The committee considers that the median CEO pay ratio is representative of the UK employee base. Capita is committed to offering its employees a competitive remuneration package. Base salaries for employees, including our executive directors, are determined with reference to a range of factors including market practice, experience and performance in role. Due to the nature of his role, the CEO's remuneration package has higher weighting on performance-related pay (including the annual bonus and LTIP) compared to the majority of the workforce. This means the pay ratios are likely to fluctuate depending on the outcomes of incentive plans in each year. The committee also recognises that, due to the nature of the company's business and the flexibility permitted within the regulations for identifying and calculating the total pay and benefits for employees, the ratios reported above may not be comparable to those reported by other companies.

## Gender pay gap reporting

Information on the Company's gender pay gap is detailed on page 34 of the strategic report.

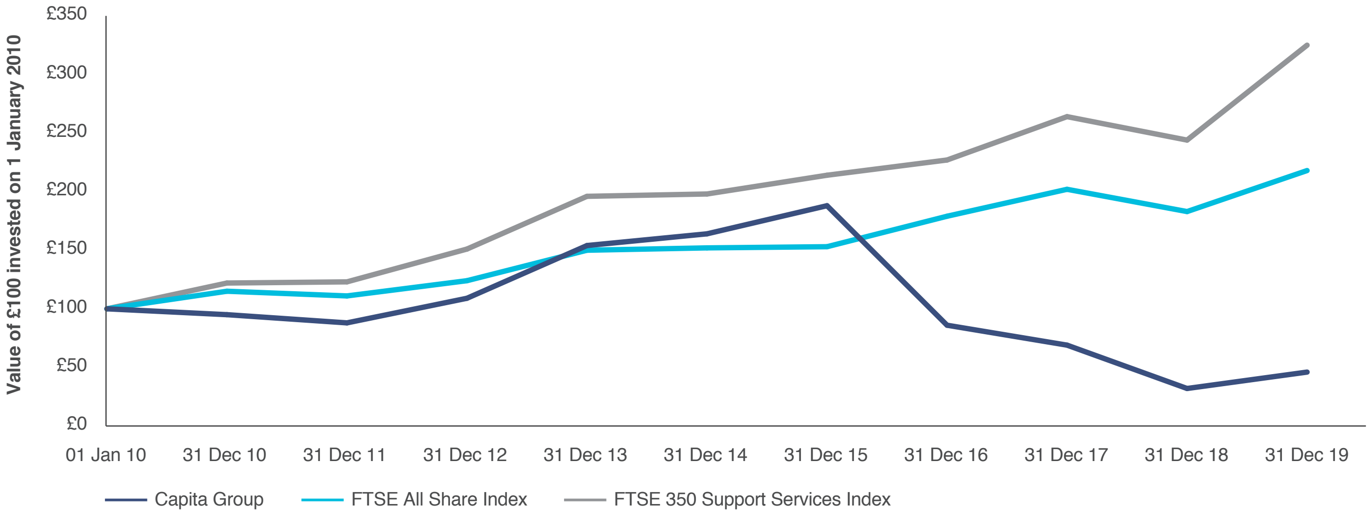
## Relative importance of the spend on pay

The table below shows the spend on employee costs in the 2019 financial year, compared to dividends:

| | 2019 £m | 2018 £m | % change |
|---|---|---|---|
| **Employee costs** | **1,919.9** | 1,993.1 | (3.7) |
| **Dividends** | **–** | – | – |

## 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 reinvested. The FTSE 350 Support Services has been chosen as the appropriate comparator as Capita is a constituent of this index.




The total remuneration figures for the CEO during the 2019 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 payout 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 payout against maximum opportunity | Long-term incentive vesting rates against maximum opportunity |
|---|---|---|---|
| **2019** | £789,678 | –% | –% |
| **2018** | £2,014,209 | 85% | –% |
| **2017** | £741,376 | –% | –% |
| **2016** | £682,958 | –% | –% |
| **2015** | £2,520,428 | 50% | 71.4% |
| **2014** | £2,558,998 | 100% | 67.2% |
| **2013** | £2,326,250 | 75% | 54.5% |
| **2012** | £2,038,233 | 100% | 47.8% |
| **2011** | £1,833,308 | –% | 56.0% |
| **2010** | £1,399,675 | 100% | 88.6% |

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 4 March 2020.

**Georgina Harvey**
Chair
Remuneration Committee
4 March 2020