

Capita



# Embracing change

Capita plc Annual Report and Accounts 2023



## Capita is a leading provider of business process services, driven by data, technology and people.

We operate in the UK, Europe, India and South Africa – and across two core divisions: Capita Public Service and Capita Experience.

Every day our 43,000 colleagues touch the lives of millions of people, by delivering innovative, digitally enabled solutions to transform and simplify the connections between government and citizens, businesses and customers.

Under new leadership our priorities for 2024 and onwards will be to:

- Define and refine Capita's formula for winning in its markets;
- Ensure we deliver efficiently and effectively for our customers each and every time;
- Capture greater economic value from our core business;
- Deliver sustainable free cash flow and improving shareholder returns; and
- Rally our leadership team, motivate our colleagues and reset our culture.

We will embrace the changes we need to deliver on our objectives.



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<div style="text-align: center;">  </div> <p><b>+ This Annual Report, other corporate publications, our latest news and announcements, and more information about us is available on our website, <a href="http://www.capita.com">www.capita.com</a></b></p>	<div style="text-align: center;"> <p><b>CEO's review</b></p> </div> <p><b>+ Read our CEO review on pages 8 to 13</b></p>	<div style="text-align: center;"> <p><b>Responsible business</b></p> </div> <p><b>+ Read more about our approach to being a responsible business on pages 29 to 56</b></p>

## Cautionary statement

The directors present the Annual Report for the year ended 31 December 2023, which includes the strategic report, corporate governance reports and audited accounts for the year. Pages 1 to 123 of this Annual Report comprise a report of the directors which has been drawn up and presented in accordance with English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Where the directors' report refers to other reports or material such as a website address, this has been done to direct the reader to other sources of Capita plc information which may be of interest. Such additional materials do not form part of this report.



## Highlights ► Financial

# Reviewing our performance

The Group delivered further progress in 2023 in terms of adjusted revenue and profit growth and new contract wins/ extensions. These were supported by positive customer and employee feedback as measured by cNPS and eNPS, respectively. The Group's balance sheet has been strengthened by the final disposals under the portfolio programme but, with a substantial cash outflow in 2023 and a further, albeit smaller, outflow expected in 2024, significant cost saving programmes are being implemented to underpin the goal of sustainable positive free cash flow generation.

### 2023 financial highlights and KPIs

Reported revenue

**£2,814.6m**

(2022: £3,014.6m)

Reported (loss)/profit before tax

**£(106.6)m**

(2022: £61.4m)

Adjusted profit before tax<sup>1</sup>

**£56.5m**

(2022: £49.8m)



Free cash flow<sup>3</sup>

**£(154.9)m**

(2022: £(31.5)m)

Adjusted revenue<sup>1</sup>

**£2,642.1m**

(2022: £2,609.0m)



Reported basic earnings/(loss) per share

**(10.60)p**

(2022: 4.47p)

Adjusted basic earnings per share<sup>2</sup>

**1.70p**

(2022: 2.64p)

Free cash flow before the impact of business exits<sup>3</sup>

**£(115.5)m**

(2022: £(42.4)m)

[+ Read more in the Chief Financial Officer's review on pages 22 to 28](#)

1. Capita reports results on an adjusted basis to aid understanding of business performance. Refer to alternative performance measures (APMs) on pages 230 to 233.

2. Refer to note 2.7 to the consolidated financial statements.

3. Refer to note 2.9 to the consolidated financial statements.

Highlights ▶ Non-financial

2023 non-financial highlights and KPIs

Employee net promoter score

**-4pts**

(2022: -9pts)

Customer net promoter score<sup>4</sup>

**+16pts**

(2022: +26pts)

Suppliers paid within 60 days<sup>5</sup>

**99%**

(2022: 99%)



Total shareholder return (TSR)

**(9.3)%**

(2022: (33.5)%)

Employee engagement index

**67%**

(2022: 65%)

Diversity: gender F/M/other and did not disclose

**50:49:1%**

(2022: 49:51%)



Reduction in carbon footprint<sup>7</sup> (location-based)

**37%**

(2022: 47%)

CO<sub>2</sub> emissions (location-based) Scope 1, 2 and 3 (tCO<sub>2</sub>e)

**40,456**

(2022: 39,287)



Voluntary employee turnover

**24%**

(2022: 30%)

Diversity: ethnicity<sup>6</sup>

**37:22%**

(2022: 37:24%)



Reduction in carbon footprint<sup>8</sup> (market-based)

**58%**

(2022: 65%)

+ Read more in the Responsible business section on pages 29 to 56

4. 2022 comparative restated to exclude the disposed of Portfolio businesses.

5. Data includes invoices paid through Capita UK companies.

6. White:Black, Asian and minority ethnic. 41% of people chose not to respond or not to specify.

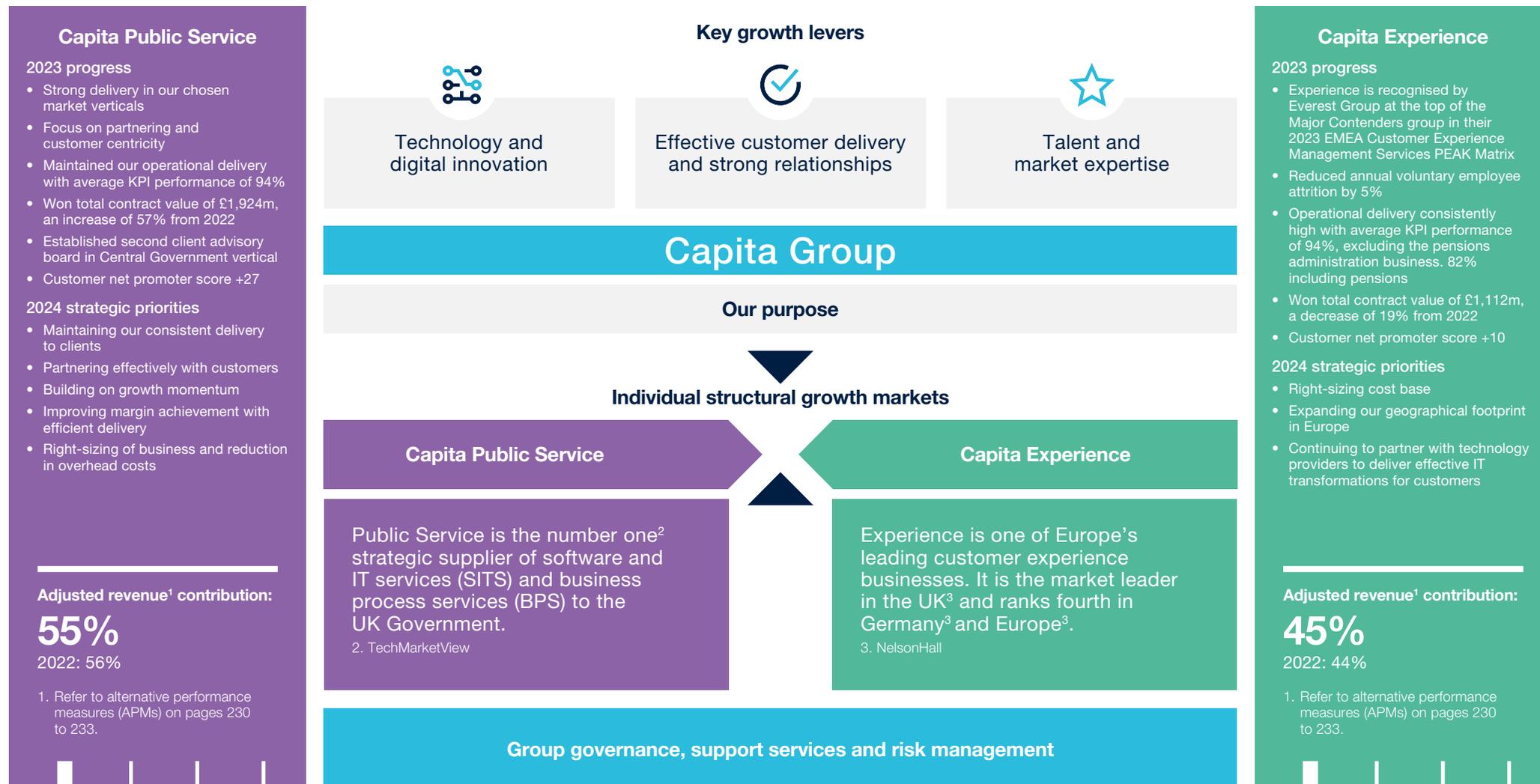
7. Reduction in carbon footprint based on emissions per headcount from 2019 baseline. See pages 40 to 42 for more information.

8. Scope 3 for business travel only. See pages 40 to 42 for more information.

At a glance

# Understanding Capita today

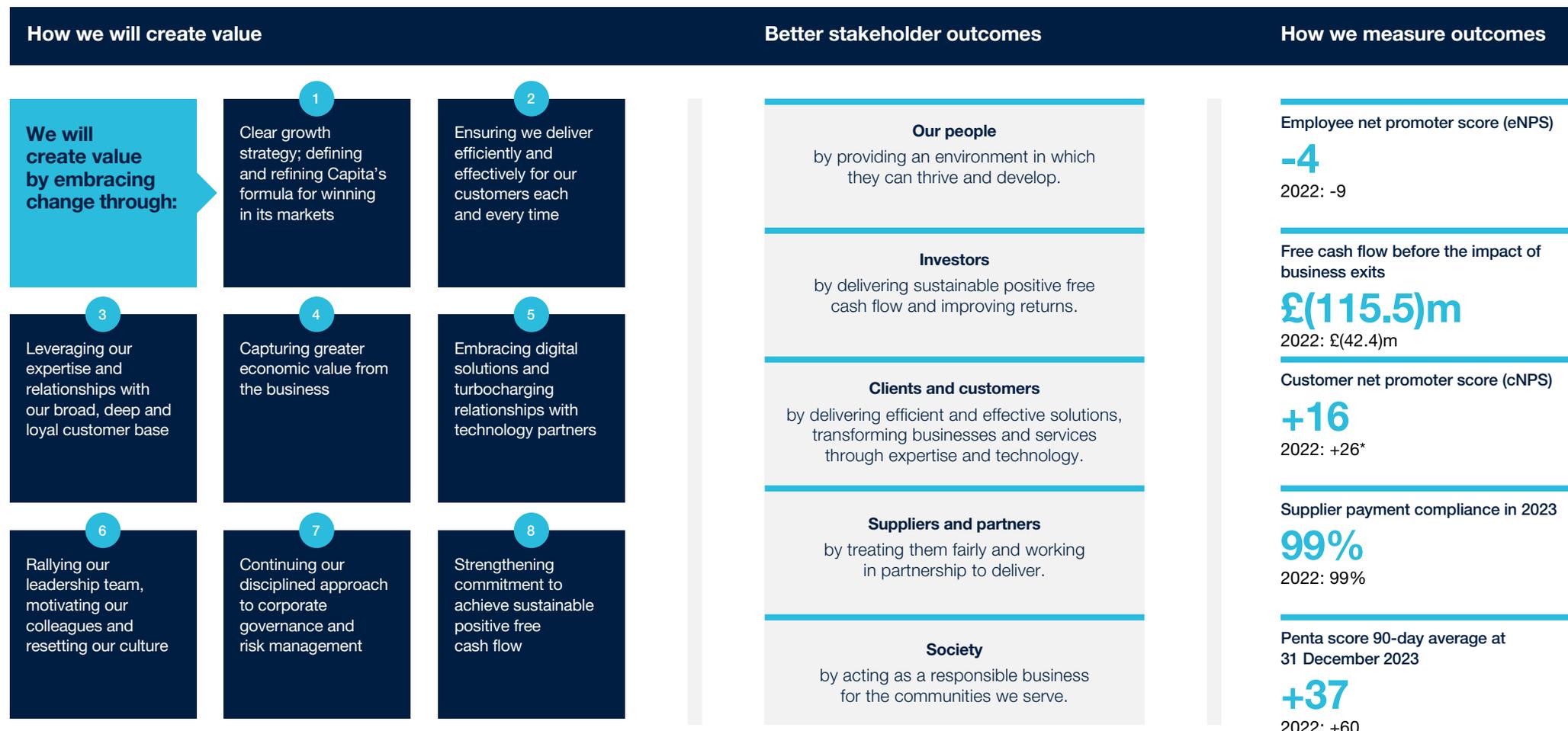
Striving to create better outcomes for all our stakeholders.



Investment case

# Driving change to create value

Creating a compelling investment case to deliver value for all our stakeholders.



+ For more on our performance see highlights and KPIs on pages 2 and 3

+ For more on how we engaged with our stakeholders see pages 45 to 48

\* 2022 comparative restated to exclude the disposed of Portfolio businesses

## I Chairman's statement

# Committed to delivering value



“We appreciate the patience and support of all shareholders, and we remain committed to delivering long-term value creation for all our stakeholders”

David Lowden, Chairman

### Overview

In 2023, Capita continued on its journey to delivering the medium-term priorities that were outlined in 2022.

I am pleased to note a number of positive achievements this year. The total value of new contracts won has continued to grow strongly, up by 17%. Top line revenue growth was positive but impacted by contract award delays and some specific contract losses. We are delivering for our clients and their customers, and we have an engaged and talented workforce.

The cyber incident in March was a very challenging period for the Group and some of our customers, although the majority were unaffected. The Group's management team acted swiftly during this period and we continue to bolster defences and governance in this area.

In July, Jon Lewis announced his intention to retire from Capita. On behalf of the Board, I would like to express our sincere thanks to Jon and pay tribute to his significant commitment and achievements at Capita over the past six years. I'd also like to commend him for his leadership throughout the period following the cyber incident in March, during which he decided to delay his possible retirement.

In early 2024, we welcomed Adolfo Hernandez as the CEO of the Group and to the Board. Adolfo has a strong track record in accelerating revenue growth driven by digital services over his c.30-year career, which has included senior leadership roles at Amazon Web Services (AWS) and SDL plc. His appointment is testament to the exciting potential for the Group.

As with all organisations, in 2023 we were faced with a difficult macroeconomic backdrop of high inflation and tight labour markets, particularly at the start of the year. While the Group has managed these challenges, there is still more to do to ensure that we maximise our revenues, minimise costs and reduce employee attrition to ensure we can continue to deliver for our clients.

We recognise that our financial performance is not where it needs to be and our investors have not yet seen improved returns and financial benefit from the strengthened Group. We appreciate the patience and support of all shareholders, and we remain committed to delivering long-term value creation for all our stakeholders.

I'd like to thank our colleagues across the entire organisation for their professionalism and dedication throughout a challenging year.

### 2023 performance

Capita is focused on putting clients first, and despite wider challenges in 2023 we continued to deliver for our clients. The Group's customer net promoter score (cNPS) remains competitive at +16.

While we saw modest adjusted revenue<sup>1</sup> growth and a step up in adjusted profit before tax<sup>1</sup>, we continue to lag behind our peers in revenue growth and profit margins. Our free cash flow performance was disappointing and we are focused on improving the Group's financial performance and delivering sustainable positive free cash flow.

In November 2023, we announced an employee redundancy programme to underpin delivery of sustainable positive free cash flow. This phase was finalised in early 2024 and will result in annualised savings of £60m from Q1 2024. While this process involved a number of difficult decisions, it will help deliver a leaner organisation which will improve margin performance. In the December trading update, we also noted that we were continuing to evaluate additional cost saving opportunities to underpin our margin improvement plans and we have identified further efficiency opportunities as outlined in Adolfo's review.

Importantly, the maturity profile of the Group's funding position was enhanced in the year, with the extension of the revolving credit facility to 2026 in June and issuance of private placement notes in July. We have now completed our Portfolio disposal programme with completion of the People, Software, Business Solutions and Travel pillars in 2023 and Fera in January 2024.

In November 2023, the Group reached agreement with the Trustees of its main defined benefit pension scheme in respect of the March 2023 triennial funding review. Given the improved funding position of the scheme, we have agreed with the Trustees that no further deficit contributions will be required other than the £21m already committed to be paid in 2024 under the 2020 funding agreement. With effect from 2025 onwards the Group will no longer be required to pay substantial pension deficit contributions.

The delivery of our cost efficiency plans, together with the cessation of pension deficit contributions from 2025 onwards, are key enablers of the Group's journey to sustainable positive free cash flow generation.

1. Refer to APMs on pages 230 to 233.

## I Chairman's statement *continued*

“The Board and management team are committed to delivering on the Group's priorities, and ensuring our progress generates returns”



### Cyber incident

In March, the Group experienced a cyber incident, which affected some client services, particularly in the pension administration business, although the majority of clients and customers were unaffected.

We have naturally taken the opportunity to bolster our defences and our governance in this area. We are continuing to invest in our systems and processes. This has enabled us to improve the Group's cyber maturity as measured by reference to the National Institute of Standards and Technology cyber security framework.

This cyber incident, and the management of its consequences, was a challenging experience for Capita, but I'd like to thank our customers for their patience and support as well as the Group's management team and colleagues across the business for their professionalism and dedication throughout the period.

### The Board and governance

2023 was my first full year in role, and it is my privilege to be Chairman of Capita.

As previously announced, in March 2023, non-executive director John Cresswell stepped down from the Board and in December, non-executive director Claire Miles announced she would be stepping down, following appointment to the Board in May, due to her executive role at Stagecoach which she was offered shortly after appointment to the Capita Board. I'd like to thank John and Claire for the valuable contribution they both made during their time on the Board.

In December, following a review of the Board's constitution, it was agreed that employee non-executive director Janine Goodchild would step down from the Board at the end of 2023.

I'd like to thank Janine for her contribution since joining the Board earlier in the year. Nneka Abulokwe will take the lead role in employee engagement through our Board ESG Committee to ensure we maintain our high level of workforce engagement going forward.

### Culture and responsible business

Being a responsible business is key for the Group. I'm pleased with the improvement made in our gender pay gap and our improving diversity and inclusion trend, which continued this year.

We continue to run a virtual-first working model, offering employees hybrid working, which is extremely important to us and has helped to create a more engaged and motivated workforce.

It was pleasing to see employee engagement improve a further 2% in 2023 to 67% and employee NPS increase by a further five points.

### Looking forward

In the short term, the Board's priority is to ensure Adolfo is successfully onboarded and embedded within the Capita Group. It is natural to expect that 2024 will be somewhat of a transitional year as Adolfo builds on what has been achieved over the past few years and as he leads the final stage of Capita's turnaround, implementing his strategic priorities to underpin the long-term success of the business.

The Board and management team are committed to delivering on the Group's priorities, and ensuring our progress generates returns to our shareholders as well as delivering for all stakeholders. I am confident we have the foundations and team in place to do so.

**David Lowden**  
Chairman

## I Chief Executive Officer's review

# Getting the basics right



“It is clear that Capita is at an exciting point in its journey with attractive offerings in many segments, client satisfaction scores we can be proud of and a very talented and diverse workforce”

**Adolfo Hernandez, Chief Executive Officer**

### Introduction

I am delighted to have joined Capita in the middle of January 2024. Capita plays an essential role in underpinning how millions of people's lives operate – every single day – and I am honoured to have been appointed as leader of this business.

Much has been achieved in the transformation of the Group under Jon Lewis's leadership, with improvements in client satisfaction and contract delivery, the simplification of the business, with multiple unfocused business units reduced to two market-focused divisions, and significant debt reduction. This has created a solid foundation to build on. We are now refocusing our operations and strengthening our execution capabilities, defining our future strategy and transforming into a more agile, client centric business, that will ultimately deliver profitable cash-backed growth.

Over the last few weeks, I have spent time embedding myself within the organisation, meeting with stakeholders, the leadership team and colleagues around the world to better understand the strengths of Capita today and where there are opportunities to create value in the future.

It is clear that Capita is at an exciting point in its journey with attractive offerings in many segments, client satisfaction scores we can be proud of and a very talented and diverse workforce. Capita has a rich client base with multifaceted and deep relationships. I'm pleased to see that we have high quality people across the organisation who understand how to deliver complex services and are passionate and committed to our clients and their needs.

The evolving digital landscape (automation and generative AI) pose both a challenge and an opportunity that we intend to take advantage of in order to deliver better, more efficient services

to our clients. Through our partnership with technology hyperscalers we will co-create and innovate solutions that solve our clients' needs for today and the future.

As we take the company to the next stage of its evolution, we have challenges we need to tackle. Our immediate focus is to deliver a rapid improvement in the financial performance of the business and, in particular, to realise our goal of sustainable positive free cash flow generation.

To win in our marketplace, we must ensure: our cost base is appropriate for the size of our business; our clients are advocates for Capita; we deliver and execute with precision; and, importantly, our colleagues throughout the Group are aligned with our vision, can grow their careers with Capita and are proud to be part of our organisation.

We need to grow our revenue by acquiring new clients and expanding our relationships with existing clients. But this revenue growth must generate an appropriate cash-backed financial return. Key to this is maintaining our contract bidding discipline and ensuring we execute for our clients with precision when it comes to delivery. We recognise that we will also need to curtail some existing activities that do not deliver this objective. To this end, we are conducting a review of our operations to help us identify these particular activities and an implementation plan to ensure continuity for our clients and their customers.

Over the next few months, I will work with the Board, my leadership team and our colleagues across the organisation to develop a clear roadmap to:

- Define and refine Capita's formula for winning in its markets;
- Ensure we deliver efficiently and effectively for our clients each and every time;

## Q&A

### What made you want to join Capita?

Capita has a client base that is second to none, with longstanding trusted relationships. The market is moving at pace, and our clients will demand a shift where our human-to-human interactions are augmented by technology, to deliver more efficient services. There is a huge opportunity to take advantage of this and Capita is well placed to be a winner in this space.

### As a new CEO, what are your priorities?

My focus is on accelerating profitable, cash-backed growth. We need to get leaner and more agile as a prerequisite for growth. To do that, we will need to be clear on our areas of focus, leverage technology and partnerships with the hyperscalers, manage our cost base more effectively, execute and deliver for our clients with precision, and create and embed a culture that drives the right behaviours and empowers and motivates our people.

### What is your outlook for the year ahead?

We are focused on developing our medium-term strategy which will enable us to grow and win in the future. My intention is for 2024 to be a year of stability where we move Capita in the direction of becoming a business that grows, generates cash-backed profits, with good and improving customer relationships, and where people are proud to work for our organisation – and importantly where our shareholders see an improving return on their investment.

## I Chief Executive Officer's review *continued*

- Expand our current services to capture greater economic value from our core business;
- Identify opportunities where we can work with partners to develop and deliver technology solutions that will create cost efficiencies and a better customer experience;
- Enhance productivity through standardisation, replication and better use of tools and data;
- Rally our leadership team, motivate our colleagues and evolve our culture, see page 32; and
- Embrace the changes we need to deliver on our objectives.

I am planning to set out our vision, strategy and associated medium-term financial and non-financial targets in detail at a Capital Markets Day in June 2024.

The rest of this CEO review summarises what has been achieved across the business in 2023. I'd like to thank my new colleagues for their hard work, dedication and professionalism through what has been a challenging year for many. I am very much looking forward to leading Capita on the next stage of its journey.

### Summary of achievements in 2023

As a Group, we continue to put our clients and their customers first. Our customer net promoter score (cNPS) remains strong at +16 (+25, excluding the pensions administration business where a number of clients were impacted by the cyber incident in March 2023). While this is a ten-point reduction from 2022, it remains a creditable performance bearing in mind the impact of the cyber incident.

During 2023, we focused on creating a compelling working environment and meaningful careers for our colleagues across every geography and saw positive improvements in employee engagement, inclusion and wellbeing scores.

Our financial performance for the year was not where it needed to be. Revenue growth, profit margins and free cash flow remain behind our peers. We are committed to delivering a financial performance that enables us to achieve our goal of delivering sustainable positive free cash flow over the medium term.

Despite significant rationalisation over the past few years, our cost base is too high. In November 2023, the Group announced that it had launched a significant cost reduction programme expected to deliver annualised cost savings of £60m from Q1 2024. We have identified further material efficiency improvements which are essential to ensuring our competitive position in the market and during the remainder of 2024 we will be taking steps to realise a further £100m of annualised cost savings by mid 2025. A proportion of these further savings will be reinvested in the business to develop the Group's technology, service delivery and pricing. We expect to provide further detail about this at our Capital Markets Day in June 2024.

During 2023, the Group significantly extended its funding maturity profile. In June we extended our revolving credit facility to 2026 and in July we issued £101.9m of US private placement notes with a mixture of three and five-year maturities. We finalised our c.£500m Portfolio disposal programme with the announcement of the sale of Fera in December, a transaction that completed in January 2024.

The Group's contract growth momentum across 2023 remained strong. We won contracts with a total contract value (TCV) of £3,036m, up by £443m from £2,593m in 2022, and saw a major improvement in the Group's win rate for new scopes of work and expansions of existing scopes to 70%, up from 32% in 2022.



### Our people

During 2023, we focused on creating a compelling working environment and meaningful careers for our colleagues across every geography and saw positive employee engagement, inclusion and wellbeing scores.

In 2023, we saw a major improvement in the Group's voluntary employee attrition rate which on a rolling 12-month basis reduced from 30% at the start of the year to 24% by year end. We implemented specific Group and local measures to reduce attrition including a Capita-wide induction programme to improve the employee onboarding process and a global line manager training programme to ensure consistent induction experiences. At a divisional level, we increased communications with all employees via newsletters and divisional town hall events to improve employees' sense of belonging.

Our hybrid, virtual-first organisation continues to be an important factor in our ability to attract and retain talent, including in locations where we do not have a physical office location. In our annual people survey, 88% of respondents who work from home stated that the flexible working arrangements are a key motivator for them to stay with Capita.

At the end of 2023, we took the difficult decision to withdraw from the UK's real living wage. Since 2020, the Group has increased the salaries of our lowest earners by 22% and the 2024 real living wage increase of 10.1% was not something we could commit to given the need for Capita to remain cost competitive and that this is not a cost we are able to pass on to our clients. We continue to apply global fair pay principles across all geographies to ensure we are able to attract and retain the colleagues we need to deliver our business commitments. In the UK, those paid a real living wage previously will

## I Chief Executive Officer's review *continued*

continue to be paid higher than the national minimum wage.

We have supported colleagues through the cost-of-living challenges which each of our geographies has faced this year. In our annual salary review at the start of 2023, we prioritised salary increases to our lower earning colleagues with our highest earners asked to forgo a pay increase.

Diversity remains a key focus for the Group and at year end we had 40% female senior leadership (globally) and 14% ethnic diversity. At year end our Board was 56% female and our Executive Team at year end was 29% female, rising to 44% in early 2024. At year end, our Board and Executive Team were 22% and 14% ethnically diverse respectively.

In October, Capita was recognised as one of the top companies for women by Forbes, ranking 18 out of 400 global companies. This is a testament to our commitment to diversity, inclusion and equality in our workplace.

We continued with our roll out and embedding of the career path framework (CPF) in 2023, helping

employees across every level and geography in the organisation build a meaningful, long-lasting career with Capita. CPF provides clarity about the skills and experience required for roles across the organisation – and ensures salaries are benchmarked to appropriate market rates.

We are building advocacy in Capita and are focused on ensuring that our people are proud to work for the organisation. This was evidenced in our annual people survey, where 84% of respondents said they can be themselves at work, higher than the global average, while 63% stated they feel proud to work for Capita, lower than the global average and something we are working to improve.

We continue to support community initiatives to help the most disadvantaged and vulnerable in society. Globally, colleagues completed nearly 21,000 hours of volunteering, almost three times the hours completed last year. We were pleased to retain our status as a gold award employer under the Armed Forces Covenant.

### Cyber incident

In March 2023, a threat actor gained unauthorised access to certain of our systems which caused disruption to client services in some parts of our business. We worked closely and at speed with specialist advisers and forensic experts to investigate and resolve the incident.

Based on the forensic work performed, we confirmed that some data had been exfiltrated during the incident. Consequently, we took extensive steps in the immediate period after the incident to recover and secure the exfiltrated data. We continue to monitor the dark web and can confirm that we have seen no evidence, subsequent to our recovery activities, that any of the exfiltrated data is in circulation there or elsewhere in the online environment. As a precautionary measure, we offered a 12 month

subscription to Identity Plus, a monitoring service provided by UK credit reference agency Experian. Our investigation is now complete and all affected clients, suppliers and employees are in the process of being contacted and we continue to support those whose data was exfiltrated.

As a result of the incident, we incurred net costs of £25.3m, comprising specialist professional fees, recovery and remediation costs and investment to reinforce Capita's cyber security environment.

We have accelerated our previously planned investment to improve our cyber security maturity which has improved and is subject to external audit with reference to the National Institute of Standards and Technology cyber security framework.

The incident was a challenging experience for the Group, and we have taken steps to share our experience and learnings with our clients, suppliers and other companies and plan to continue this good practice in the future. Since the incident we have continued to see good contract growth momentum with a 17% increase in TCV secured in 2023.

### Growth

The Group's contract growth momentum across 2023 remained strong. We won contracts with a TCV of £3,036m, up £443m from £2,593m in 2022. There was a particularly strong performance in Public Service, where a number of deals previously scheduled to close in 2022 were delayed into 2023. While a number of these contracts have now been signed, the delays affected the division's revenue growth in 2023.

The book to bill ratio for the Group remains above 1.0x at 1.1x, with 1.3x in Public Service and 0.9x in Experience. As we look to build our revenue growth, maintaining this metric above 1.0x is a priority.

We saw a major improvement in the Group's win rate for new scopes of work and expansions of existing scopes to 70%, up from 32% in 2022. Significant new scopes of work in Experience include: the Civil Service Pension Scheme, which will start in 2025; the City of London Police, which will begin later in 2024; and the National Transport Authority of Ireland and Santander, which have now commenced. In Public Service, the Group won material expanded scopes of work with the Department for Work and Pensions to deliver Functional Assessment Service (FAS) and the Department for Education delivering Disabled Students Allowance (DSA).

Despite our strong TCV performance, revenue growth continues to be impacted by previously announced contract losses, particularly in Local Public Service and the Co-operative Bank. In addition, consistent with our drive to ensure all contracts are bid at an appropriate margin, we saw a reduction in the Group's contract renewal rate to 52% from 96% in 2022. This decrease reflected the loss of the administration of the Teachers' Pension Scheme contract in Experience and the Electronic Monitoring Service and Standards and Testing Agency (STA) contracts in Public Service, all of which were lost on price and which will have a dampening impact on revenue growth. Material renewals secured in 2023 include Virgin Media O2 and the extension of the Recruiting Partnering Project (RPP) contract with the British Army.

Reflecting the strong TCV performance across 2023 and increased rigour across the qualification process, the unweighted pipeline for 2024 is at a lower level than at the start of 2023, with a total unweighted pipeline of £10,381m. Material contracts within the pipeline include opportunities with the Department for Work and Pensions, the Ministry of Defence, and a number of contracts within our International Markets in Experience.



## I Chief Executive Officer's review *continued*



In February 2024, Experience secured an extension and expansion with an existing client in the European telecoms business worth £220m.

At 31 December 2023, the Group's order book was £5,883m, an increase of £77m from 31 December 2022 with £2,417m order book additions, indexation and scope changes, offset by £2,101m revenue recognised and a £239m reduction from business disposals and contract terminations.

### Operational delivery

Throughout 2023, we continued to maintain our focus on operational delivery for clients. By striving to deliver well for our clients and getting it right first time, we should reduce excess cost and avoid financial penalties. While we have made progress in this area, there is still work to do. We will be building on what has been achieved to date through strengthening and standardising our operational processes.

Our cNPS remains strong at +16 (+25, excluding the pensions administration business where a number of clients were impacted by the cyber incident in March).

Within the cNPS survey, our promoters spoke highly of our employees, citing the knowledge and relationships with the teams they work with at Capita and the quality of services delivered. However, we also received feedback from some clients around project delay and delivery issues and comments suggesting that certain teams could be more agile in service delivery. We will focus on improving in these areas in 2024, in line with our goal of ensuring we deliver efficiently and effectively for our clients each and every time.

Our KPI performance across 2023 remained above 90% in both divisions. Where KPI performance was not met at any point over the year, for example in respect of the particularly challenging 99.7% of exam scripts marked and returned in our contract for the STA, and recruitment targets in the RPP, we are implementing specific remediation action to ensure we meet the high standards Capita expects to deliver.

Notable achievements across the contract portfolio in 2023, included:

- Within Public Service, on our Royal Navy training contract, we met our final milestones

as set out in the original contract, concluding the transition of multiple legacy contracts.

- On the Job Entry Target Support contract in Scotland, we completed more than 200% of the targeted number of job starts across the contract period.
- Within the Experience division, on our Virgin Media O2 contract, we significantly increased the size of our offshore delivery team, with 1,000 full-time employees added, providing additional optionality to the client to service customers with digital enablement.
- Within the Energy & Utilities vertical of Experience, we successfully delivered a significant step up in available hours around peak demand in Q4 to ensure efficient outcomes for clients and their customers.

As we move into 2024, we are focused on delivering the complex transition and mobilisation requirements of our new contracts with the City of London Police, DSA and National Transport Authority Ireland.

Consistently delivering for our clients is the cornerstone of our success. Effective, efficient client delivery and getting it right first time, reduce excess cost and allow us to grow revenue.

### Digital transformation and artificial intelligence

We are taking a measured approach to artificial intelligence (AI) and generative AI (gen AI), working with our clients and partners to deliver effective and efficient solutions as the technology continues to evolve. We expect that gen AI will allow us to be more productive and offer our clients superior solutions.

We plan to turbocharge our relationships with a number of trusted hyperscale partners, including Microsoft, AWS, Salesforce and ServiceNow. We also plan to partner to develop and deliver

solutions across a wider span, creating a more digital Capita, delivering an efficient and higher quality service and experience for our clients and their customers.

We have already integrated digital and AI solutions into a range of clients. For example in the Public Service division, we have utilised a new Metaverse virtual reality tool for submarine qualification training within the Royal Navy. This modernised solution improves the learning experience and enables better trained submariners to be on the front line faster.

Within the Experience division, AI and gen AI will augment our agents, upskill our people, provide critical information quickly, and enable our people to be more competent and capable, which will in turn deliver better customer experiences. AI has been implemented in the division across a number of contracts in four key capability areas: chatbot/conversation AI; conversation analysis; data observatory and analytics; and correspondence digitisation.

We are continuing to develop further AI and gen AI pilots across both divisions, for example on our BBC and Transport for London contracts.

### Cost efficiency

In November 2023, the Group announced it had commenced employee redundancy programmes expected to deliver an annualised £60m of cost savings from Q1 2024. The organisational changes that we have implemented primarily affected around 900 indirect support function and overhead roles.

We have identified further material efficiency improvements which are essential to ensuring our competitive position in the market and during the remainder of 2024 we will be taking steps to realise a further £100m of annualised cost savings by mid 2025, which will be partially reinvested in growth.

## I Chief Executive Officer's review *continued*

“We significantly extended our funding maturity profile in 2023 through the extension of the Group's revolving credit facility to 2026 and issuance of £101.9m equivalent of US private placement notes”

We expect to provide further detail about this at our Capital Markets Day in June 2024.

Our property footprint continues to reduce as we benefit from our virtual first working model. We are targeting savings by managing capacity around demand for office spaces across our geographies. We permanently closed 19 properties and consolidated a further 14 during 2023. This year we reduced the square footage of our total property portfolio by a further 9%.

The total footprint of the Group's property portfolio has now reduced by 31% in the last three years. The IFRS 16 lease liability associated with our property portfolio reduced by £30m across 2023, reflecting the continued reduction in our leased property estate.

### Financial results – revenue and results before tax

Adjusted revenue<sup>1</sup> growth for the year was 1.3% with adjusted revenue of £2,642.1m (2022: £2,609.0m). This reflects underlying growth in contracts such as Personal Independence Payments, benefit from indexation and a

commercial settlement in the closed book Life & Pensions business in Experience. This was partially offset by contract losses including the Co-operative Bank in Experience and in our Local Public Service business in the Public Service division.

Reported revenue declined by 7% to £2,814.6m as core business growth was more than offset by the disposal of non-core businesses.

Adjusted profit before tax<sup>1</sup> improved by £6.7m to £56.5m (2022: £49.8m). Profit benefited from revenue growth, in particular the commercial settlement in Experience noted above and a reduction in bonuses and variable pay, offset by increased financing costs.

The reported loss before tax was £106.6m as a result of the £38.8m loss incurred on business exits during the year, the goodwill impairment of £42.2m (recognised in respect of businesses in the Portfolio disposal programme), the expense associated with the Group's cost reduction programme with £23.3m incurred in respect of employee consultation programmes, £31.1m of associated property related charges, and £25.3m of costs incurred in respect of the March 2023 cyber incident.

### Financial results – free cash flow and net debt

The free cash outflow<sup>1,2</sup>, before the impact of business exits was £115.5m, (2022 outflow: £42.4m). The 2023 outflow was driven by an increased working capital outflow, principally reflecting a reduction in the in-period usage of the Group's non-recourse invoice discounting facility and the non-cash nature of the commercial settlement in Experience. There were additional outflows reflecting the cash cost of the cyber incident and the expected increase in capital expenditure on technology investment across the Group.

The free cash outflow<sup>1,2</sup> for the Group was £154.9m (2022 outflow: £31.5m), reflecting the in-year cash impact of businesses exited or being exited of £23.1m and £16.3m of pension deficit contributions triggered by disposals.

We have now completed our c.£500m Portfolio non-core business disposal programme. In 2023 we completed the disposal of our People, Software, Business Solutions and Travel pillars realising net proceeds of £63.4m in the year. In December 2023, we announced the sale of Fera, our joint venture with DEFRA which completed in January 2024, realising gross proceeds of £62m (£51m net proceeds, after cash held by Fera at completion and disposal costs).

Net financial debt (pre-IFRS 16) was £182.1m (2022: £84.9m) reflecting the free cash outflow, which more than offset the net proceeds realised on disposals. Proforma net financial debt (pre-IFRS 16) including the Fera net cash proceeds at 31 December 2023 would have been £132.0m, resulting in a year-end leverage of 0.9x<sup>1</sup> had the sale been completed in 2023.

Net debt, including the impact of property leases accounted for under IFRS 16 was £545.5m in 2023 (2022: £482.4), reflecting the free cash outflow across the year. Our IFRS 16 lease liability has reduced to £363.4m from £397.5m, as we continue to optimise our property footprint.

We significantly extended our funding maturity profile in 2023 through the extension of the Group's revolving credit facility to 2026 and issuance of £101.9m equivalent of US private placement notes with a mixture of three and five-year maturities.

### Outlook

Capita has a significant impact on the lives of citizens and we understand the importance of our impact on society. While we still have work to do to complete the turnaround of the Group, we have made progress over the last few years and are committed to improving our operations across the board in 2024 and beyond.

We will develop our offerings and drive operating efficiency by leveraging technology and through the cost reduction programmes being implemented in 2024. Through rigorous project management we will be focused on delivering complex client requirements on time and budget.

For 2024 as a whole, on an adjusted basis, we currently expect that revenue will be broadly in line with 2023, and that operating profit margin and free cash flow will show modest improvement year on year.

We expect the Public Service division to deliver revenue growth in 2024 reflecting the significant contracts won in 2023 moving into their operational phase later this year whereas we expect the Experience division to show a reduction in revenue reflecting the non-recurrence of 2023's closed book Life & Pensions commercial settlement coupled with ongoing revenue attrition in the rest of the Life & Pensions business.

Notwithstanding our revenue expectations, the cost reduction programmes being implemented in 2024 are expected to result in a modest improvement in adjusted operating profit margins and free cash flow, albeit in the latter case, the cash flow benefit in the year will be reduced as a result of the redundancy and other costs required to deliver the cost reduction programmes.

We will be setting out our vision, strategy and associated medium-term targets in detail at a Capital Markets Day in June 2024.

#### Adolfo Hernandez

Group Chief Executive Officer

1. Refer to APMs on pages 230 to 233.

2. From 1 January 2023 free cash flow and free cash flow excluding business exits are presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented.

## I Overview of our markets

# Our markets

Capita operates in markets with attractive structural growth trends. Enterprises and governments will increasingly need more services to manage complex outcomes. Numerous enterprises have shifted their priorities and investment to areas where they believe they can be distinctive and many government departments are looking at how they can augment their delivery capability.

So whether we consider telecom companies, energy companies, financial institutions or government agencies, the demand for having a trusted partner to deliver these complex outcomes is only going to grow. That demand is also shifting from 'human only' to 'human, augmented by technology'. This means there is a huge opportunity for the companies that can intercept those trends and are able to introduce digital transformation in the delivery of those outcomes.

Core addressable SITS market<sup>2</sup>

## £15bn

European customer experience market<sup>3</sup>

## \$33bn

Market growth across both markets per annum

## c.4%



Number one<sup>2</sup> strategic supplier of Software and IT Services (SITS) and business process services (BPS) to the UK Government

2. TechMarketView

One of Europe's leading customer experience businesses – market leader in the UK<sup>3</sup> and ranks fourth in Germany<sup>3</sup> and Europe<sup>3</sup>

3. NelsonHall



We have been awarded a Silver EcoVadis medal for our sustainability performance, reaching the 92<sup>nd</sup> percentile in 2023; Gold medal is 95<sup>th</sup> percentile



We were recognised for leadership in corporate transparency and performance on climate change by CDP, securing a place on its annual 'A List'. Only 346 companies scored an A out of 21,000 disclosures

## I Operating review ▶ Public Service overview

# Capita Public Service

Public Service is the number one<sup>2</sup> strategic supplier of Software and IT Services (SITS) and business process services (BPS) to the UK Government.

### Financial performance

Divisional financial summary	2023	2022	Change %
Adjusted revenue <sup>1</sup> (£m)	<b>1,458.6</b>	1,454.8	0.3
Adjusted operating profit <sup>1</sup> (£m)	<b>89.3</b>	93.7	(4.7)
Adjusted operating margin <sup>1</sup> (%)	<b>6.1</b>	6.4	
Adjusted EBITDA <sup>1</sup> (£m)	<b>133.3</b>	131.9	1.1
Operating cash flow excluding business exits <sup>1</sup> (£m)	<b>107.1</b>	102.3	4.7
Order book (£m)	<b>3,546.0</b>	2,985.0	18.8
Total contract value secured (£m)	<b>1,923.8</b>	1,222.5	57.4

### 2023 overview

#### Business units (new split from 2024)

- Local Public Service
- Central Government
- Defence, Fire, Security & Learning

#### Employees

- 12,000

#### Client distribution

- UK

#### Competitors

- Atos
- G4S
- Sopra Steria
- CGI
- Tata Consultancy Services
- Cognizant
- Accenture
- Serco
- Maximus

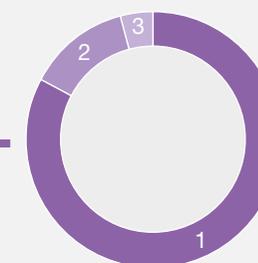
#### Major contract wins and renewals

- £565m across two five-year contracts with the DWP to deliver Functional Assessment Service (FAS) across the Midlands and Wales
- A two-year extension on the Recruiting Partnering Project working with the British Army worth £172m
- Two of four lots to deliver the Disabled Students Allowance services with the student loans company which is expected to be worth £250m over five years
- A new contract with the City of London Police on the action fraud contact centre for potential victims of fraud worth £50m over the initial five-year contract period

#### Adjusted revenue<sup>1</sup>

**£1,458.6m**  
(2022: £1,454.8m)

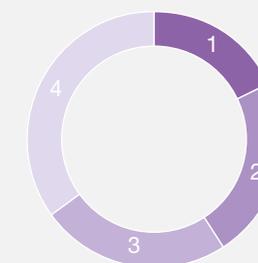
#### Adjusted revenue by type



#### Adjusted operating profit<sup>1</sup>

**£89.3m**  
(2022: £93.7m)

#### Revenue by market<sup>3</sup>



1. Long-term contractual 83%
2. Short-term contractual 13%
3. Transactional 4%

1. Health & Welfare 18%
2. Justice, Central Government & Transport 23%
3. Local Public Services 24%
4. Defence, Fire, Security & Learning 35%

1. Refer to APMs on pages 230 to 233.

2. TechMarketView.

3. Revenue by market refers to the 2023 business split.

## I Operating review ▶ Public Service *continued*

### Markets and growth drivers

In 2024, the division changed its structure to focus on three market verticals: Local Public Service; Central Government; and Defence, Fire, Security & Learning with these market verticals delivering to their respective client groups.

Our current core addressable SITS market is c.£15bn<sup>2</sup>, growing at approximately 4%<sup>2</sup> per annum. Digital BPS is a fast-growing area, while traditional business process outsourcing (BPO) is currently shrinking, reflecting the UK Government's focus on digital enablement, as it looks to ensure the delivery of high-quality, cost-effective services to its citizens.

In 2022, the UK Government published the Roadmap for Digital and Data outlining its intention to spend up to an additional £8bn by 2025 to accelerate digital, data and technology transformation so that it can better respond to future macroeconomic challenges.

Public Service operates within a highly fragmented market. Across the varied services that it delivers we operate against a number of other providers including, but not limited to: Atos, G4S, Sopra Steria, CGI, TCS, Serco, Accenture and Maximus.

### Strategy and digital transformation

Public Service is seen as a trusted delivery partner by its clients, with a high-quality offering and deep sector process knowledge in our chosen market verticals.

The division is focused on working with trusted technology partners such as Microsoft and AWS to harness digital ways of working and accelerate the transformation of our services, leveraging AI alongside the skills and capabilities of our people. We develop solutions around client needs and are progressing a number of digital proof of concepts where we've aligned digital transformation to future growth opportunities.

We have continued to simplify our operating model, removing organisational layers to improve efficiency and effectiveness across the division. We launched a second client advisory board in the Central Government sector, in addition to the previously established Defence client advisory board, to improve our understanding of Government bid processes and delivery priorities to help us become an even more effective service provider.

We continue to invest in our coverage of Government frameworks, through which companies are able to bid for Government contracts. We are included on a wide range of frameworks representing market access of up to £9.5bn including frameworks with the Crown Commercial Service, the Department for Work and Pensions and the NHS.

Looking forward, there is a significant growth opportunity to be the partner of choice – to drive efficiency, where the UK Government requires more cost-effective and efficient delivery solutions as the Public Sector invests more widely in digital, data and technology transformation.

“The division is focused on working with trusted technology partners such as Microsoft and AWS to harness digital ways of working”

#### Total contract value secured

# £1,924m

(2022: £1,223m)

#### Book to bill

# 1.3x

(2022: 0.8x)

#### Average KPI performance

# 94%

(2022: 94%)



2. TechMarketView.

## I Operating review ► Public Service *continued*

### Growth performance and key wins

Public Service won contracts with a TCV of £1,924m in 2023 (2022: £1,223m), a year-on-year increase of 57%. The TCV performance was in part driven by a small number of material contracts where award dates moved from 2022 into 2023, following a number of changes within the UK Government in 2022. The book to bill ratio for the year was 1.3x.

At 31 December 2023, the total unweighted pipeline for the division was £7,525m, a decrease of £333m from 2022 reflecting the anomalously high balance at the end of 2022 resulting from the award slippages noted above. The year end weighted pipeline was £1,266m (2022: £1,652m).

The division saw an improved win rate on new and expanded scopes at 78% from 53% in 2022. New scopes of work include City of London Police and expansions include those with the Department for Work and Pensions to deliver Functional Assessment Service (FAS) and the Disabled Students Allowance (DSA) contract for the Department for Education.

The renewal rate for the division reduced to 41% in the year from 91%, principally reflecting the loss of the Electronic Monitoring and Standards and Testing Agency contracts as the division maintained its pricing discipline. Material renewals in the year included with the British Army on the Recruiting Partnering Project. Across all opportunities bid for, the win rate was 65% (2022: 66%).

The order book at 31 December 2023 was £3,546.0m, an increase of £561.0m since 31 December 2022 reflecting the strong TCV performance in the year.

### Operational excellence and cost efficiency

The division's operational delivery across the year has been good, with an average in-month KPI performance of 94%. The division's standalone cNPS decreased six points to an overall score of +27, which remains competitive.

Operational highlights across the year included:

- Delivery of the remaining service commencement dates on the Royal Navy training contract. We have now delivered all milestones under the original contract and continue to expand our scope on this contract;
- Completion of more than 200% of the targeted number of job starts across the contract period on the Job Entry Target Support contract in Scotland;
- Supporting major events in London, including the King's coronation, the London Marathon and London Pride, as part of our Transport for London contract; and
- In our Electranet business, more than 1,000 projects were delivered across 2023, including defence secure wi-fi infrastructure across 130 military sites.

Our consistent delivery performance continues to drive expansions of existing scopes with clients such as with the Department for Work and Pensions, Transport for London and the Royal Navy.

### Financial performance

Adjusted revenue<sup>1</sup> at £1,458.6m was marginally up on 2022 reflecting price indexation across the contract portfolio, growth in the Royal Navy training contract and additional volumes on the Personal Independence Payments contract offset by contract losses and hand-backs in Local Public Services, with this vertical 14% down year on year.

Adjusted operating profit<sup>1</sup> decreased by 4.7% to £89.3m reflecting contract losses in Local Public Service offset by the flow through of revenue growth across the wider contract portfolio as noted above.

Operating cash flow excluding business exits<sup>1</sup> increased by 4.7% to £107.1m reflecting the contract performance noted above and tight working capital management.

### Outlook

Reflecting the strong TCV performance in 2023, we expect low to mid-single digit percentage revenue growth in 2024, as the division begins delivery of the FAS and DSA contracts. This growth is despite the continued revenue reductions in Local Public Service from previously announced contract losses.

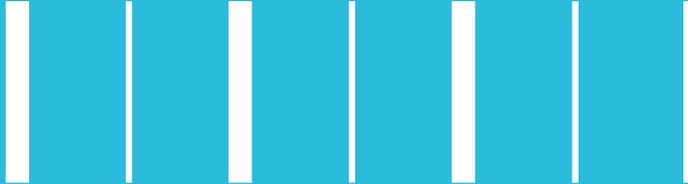
We expect improvements in margin performance in 2024 and the medium term, as the division captures greater economic value from its business through economies of scale from revenue growth, curtailing low margin work and our ongoing efficiency programmes.

“We expect improvements in margin performance in 2024 and the medium term, as the division captures greater economic value from its business through economies of scale”



1. Refer to APMs on pages 230 to 233.

# Optimising technology



**Capita expanded its longstanding collaboration with Microsoft to build upon existing digital and AI capabilities and further improve services for clients and colleagues.**

The agreement is centred on creating better outcomes for clients and their customers by combining Microsoft's cloud and AI services with Capita's operational customer and delivery know-how. This includes the use of gen AI to support agents in summarising disparate customer information at a significantly faster pace.

The integration of automation and gen AI-driven processes will increase productivity and efficiency. Clients can expect faster service delivery turnaround times, improved accuracy, and a smoother end-to-end experience.

Capita's expanded collaboration with Microsoft is already delivering value for its customers and will help to accelerate opportunities for growth through the creation of joint propositions for public sector and customer experience clients, particularly in financial services. These centre on providing simplified operations and experiences for Capita and its customers.



# Building strong client relationships



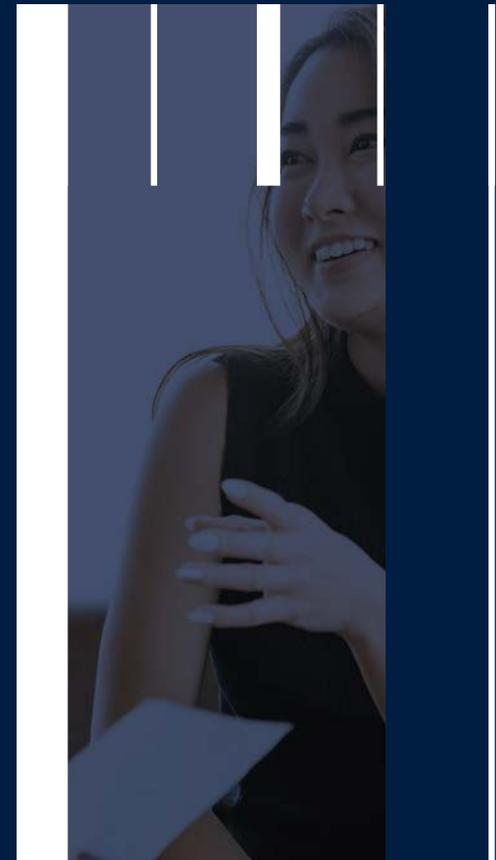
**Capita signed two contracts to deliver functional assessment service (FAS) assessments in the Midlands and Wales for the Department for Work and Pensions, and in Northern Ireland for the Department for Communities.**

The two contracts are worth a combined £565m and will run for five years from 2024, with an option to extend for a further two years.

FAS is a new service that will bring together existing assessment services, for disabled people and people with health conditions, under a single provider in each geographical region. This will make accessing support simpler and easier for some of society's most vulnerable people.

Capita will deliver assessments for Personal Independence Payment (PIP), Employment and Support Allowance and Universal Credit, as well as a number of specialist benefits including Child Disability Living Allowance and Veterans UK assessments.

Capita has been delivering PIP assessments in the Midlands and Wales since 2013, and in Northern Ireland since 2016.



# Capita Experience

Experience is one of Europe’s leading customer experience businesses. It is the market leader in the UK<sup>4</sup> and ranks fourth in Germany<sup>4</sup> and Europe<sup>4</sup>

## Financial performance

Divisional financial summary	2023	2022	Change %
Adjusted revenue <sup>1</sup> (£m)	<b>1,183.5</b>	1,154.2	2.5
Adjusted operating profit <sup>1</sup> (£m)	<b>50.9</b>	35.7	42.6
Adjusted operating margin <sup>1</sup> (%)	<b>4.3</b>	3.1	
Adjusted EBITDA <sup>1</sup> (£m)	<b>111.3</b>	109.9	1.3
Operating cash flow excluding business exits <sup>1</sup> (£m)	<b>32.7</b>	36.1	(9.4)
Order book (£m)	<b>2,299.4</b>	2,526.7	(9.0)
Total contract value secured (£m)	<b>1,112.3</b>	1,370.6	(18.8)



1. Refer to APMs on pages 230 to 233.  
4. NelsonHall.

## 2023 overview

### Business units

- Financial Services
- Telecoms, Media & Technology
- Energy & Utilities
- Retail (including charities)

### Employees

- 27,000

### Client distribution

- UK
- Ireland
- Germany
- Switzerland

### Competitors

- Atento
- Teleperformance
- Accenture
- Concentrix & Webhelp
- Foundever
- TTEC
- Tech Mahindra
- Firstsource
- Tata Consultancy Services
- In-sourced

### Major contract wins and renewals

- A five-year renewal with Virgin Media O2, worth £366m, with services delivered across a number of Capita geographies
- £239m over ten years on a new contract to administer the Civil Service Pension Scheme, one of the largest public sector pension schemes in the UK
- A new contract with the National Transport Authority of Ireland worth £35m over ten years

### Adjusted revenue<sup>1</sup>

**£1,183.5m**  
(2022: £1,154.2m)

### Adjusted revenue by type



### Adjusted operating profit<sup>1</sup>

**£50.9m**  
(2022: £35.7m)

### Revenue by market



- 1. Long-term contractual 74%
- 2. Short-term contractual 24%
- 3. Transactional 2%

- 1. Telecoms, Media & Technology 39%
- 2. Financial Services 41%
- 3. Energy & Utilities 11%
- 4. Retail (including charities) 9%

## I Operating review ▶ Experience *continued*

### Markets and growth trends

The division is structured around four market sectors: Financial Services; Telecoms, Media & Technology; Energy & Utilities; and Retail (including charities). We have strong industry expertise and presence, with clients in the UK, Ireland, Germany and Switzerland, and services delivered across these geographies and in India, South Africa, Poland and Bulgaria. We operate in markets where we have a strong track record and where we see potential for growth.

The European customer experience market is worth \$33bn<sup>4</sup> a year and the market is expected to grow at approximately 4% per annum. The outsourced element of the global customer experience market represents around 30%<sup>4</sup> of the overall market.

We are the largest provider of customer experience services in the UK and Ireland, with a market share of around 13%. Our competitors are mostly global and include entities such as Teleperformance, Concentrix & Webhelp, Tata Consulting Services and Foundever.

The customer experience market is trending to self-service with increasing levels of automation for less complex services. Increasingly clients are looking to use omnichannel offerings in a number of languages with agents working in onshore, nearshore and offshore locations.

### Strategy and digital transformation

The Experience division is a customer experience business driven by data and technology powered by people, delivering services through a client centric environment. We operate as a leading regional player with global quality standards, and an ambition to become the partner of choice for companies in our chosen geographies.

The division's core activity is the provision of cost-effective customer experience contact centres, delivering services including voice and non voice; end-to-end customer management; collections; and sales and retention. Our services are supported by a wide range of capabilities, including conversational AI and real time feedback and automation to ensure customers get the best outcomes, efficiently.

We equip and empower our colleagues across all our geographies to deliver to the highest level of service for our clients and their customers.

Within the customer experience market, as technology plays a bigger role in delivery, we have seen an increase in volumes through our automated delivery methods such as chat bots. We are leveraging technology to enhance the effectiveness and efficiency of our customer facing colleagues, particularly for complex customer experience activities such as sales as a service.

We operate in a number of geographies which offer service delivery optionality to suit client needs. In 2023, we expanded our capability in South Africa, India and Poland, which together enable us to offer flexible 24/7 delivery to our clients, across their chosen delivery methods. We also expanded our Bulgarian operations, particularly in support of the Telecoms, Media & Technology vertical. In 2024, we will further expand our operations in Bulgaria and Poland, opening additional offices in both geographies, expanding our multilingual capabilities and offerings to clients.

We are exploring opportunities in other nearshore international locations to underpin our growth ambitions and expansion of our existing client base. This allows flexibility to use onshore, nearshore or offshore delivery models when it comes to delivering our clients' service requirements.

“We are leveraging technology to enhance the effectiveness and efficiency of our contact centre operatives, particularly for complex customer experience activities such as sales as a service”

#### Total contract value secured

# £1,112m

(2022: £1,371m)

#### Book to bill

# 0.9x

(2022: 1.2x)

#### Average KPI performance

# 94%\*

(2022: 93%\*)

\* excluding pensions administration



4. NelsonHall.

## I Operating review ► Experience *continued*

### Growth performance and key wins

In 2023, the division won TCV of £1,112m, a decrease of £258m from 2022. The division's book to bill ratio was 0.9x. Material wins in the year included contracts for the Civil Service Pension Scheme, National Transport Authority Ireland, and Santander, as well as a key renewal with Virgin Media O2.

At 31 December 2023, the division's unweighted pipeline was £2,856m, a decrease of £1,226m from 2022. The weighted pipeline at 31 December 2023 stood at £560m (2022: £1,114m) and, following the sales success achieved in 2023, we are devoting significant resources to growing our pipeline of opportunities, particularly for new and expanded scopes of work.

The renewal win rate reduced to 61% from 99% in the prior year principally reflecting the outcome of the Teachers' Pension Scheme contract tender process where we continued to maintain our commercial discipline. Our win rate for the division across all opportunities was 57%, up from 51% in 2022.

At the start of 2024, the division secured an extension and expansion with an existing client in the European telecoms business worth £220m.

The order book at year end was £2,299m, a decrease of £227m since 31 December 2022, reflecting the fact that the Virgin Media O2 contract is a framework agreement not meeting the accounting criteria for order book recognition.

### Operational excellence and cost efficiency

Across the year, Experience has continued to deliver well operationally for clients with an average KPI delivery of 94%, excluding the pensions administration business. The average KPI delivery including the pensions administration business was 82%. The division's cNPS decreased by 11 points to +10 with the reduction largely in the pensions administration business which was heavily impacted by the cyber incident. Excluding the pensions administration business, the division's cNPS was +24, a three-point reduction from 2022 with a strong performance in account management and subject matter expertise.

In 2023, we focused on cost efficiency and right sizing of the business and are continuing to drive this efficiency programme as we progress into 2024.

In the Telecoms, Media & Technology vertical, we saw success in the year selling the services of our customers through peak sales periods. For one client, Capita employees sold more during Black Friday trading promotions than the telecoms provider's own employees. Within the Energy & Utilities vertical, we successfully delivered a significant step up in available hours around peak demand in Q4 to ensure efficient outcomes for clients and their customers.

Elsewhere, in the European Telecoms business we were selected as sole provider of one of our key client's customer experience activities reflecting our consistently strong operational delivery.

As expected, we have seen volume attrition within our closed book Life & Pensions business in the Financial Services vertical. We maintain our strong operational delivery in respect of these

closed book contracts, but are actively engaged in discussions to resolve the challenges in this area with a view to mitigating the ongoing cash cost from the business.

### Financial performance

Adjusted revenue<sup>1</sup> grew by 2.5% to £1,183.5m, benefiting from the one-off effect of a commercial settlement in our closed book Life & Pensions business. There were wins within the division's international markets which offset contract losses and volume attrition in the Financial Services vertical, including the previously announced loss of our contract with the Co-operative Bank.

Adjusted operating profit<sup>1</sup> rose to £50.9m (2022: £35.7m). The division benefited from the profit impact of the commercial settlement noted above and higher interest receipts in the pensions business, which more than offset contract losses and continued attrition in the remaining closed book Life & Pensions business.

Operating cash flow excluding business exits<sup>1</sup> decreased by 9.4% to £32.7m, reflecting the non-cash nature of the commercial settlement, partially offset by timing of payments on the Virgin Media O2 contract.

### Outlook

We expect a low to mid-single digit percentage revenue reduction in 2024 reflecting the non-repeat of the one-off revenue benefit in 2023 and ongoing attrition in the closed book Life & Pensions business.

We expect operating margins in 2024 to be broadly flat year on year as cost efficiencies offset the non-recurrence of the profit benefit from 2023's commercial settlement.

“In 2023, we focused on cost efficiency and right sizing of the business and are continuing to drive this efficiency programme as we progress into 2024”



1. Refer to APMs on pages 230 to 233.

## I Chief Financial Officer's review

# Delivering efficiency and improved funding



“The steps taken to improve the Group’s funding position and the efficiency programme launched at the start of 2024 are key underpins for Capita’s future”

Tim Weller, Chief Financial Officer

### Overview

Adjusted revenue<sup>1</sup> growth of 1.3% reflected underlying growth on contracts such as the Personal Independence Payments contract in Public Service, increases in indexation, and the one-off benefit relating to a commercial settlement in the closed book Life & Pensions business in Experience, partly offset by the impact of a number of contract losses.

Public Service revenue growth was underpinned by indexation, scope increases on the Royal Navy Training contract and increased volumes on the Personal Independence Payments contract, offset by contract hand-backs and losses in Local Public Services and a step down in revenues in Northern Ireland, which in 2022 benefited from the teachers’ laptop contract. Experience revenue growth was driven by improved trading in its international business, indexation and the one-off benefit relating to a commercial settlement in the closed book Life & Pensions business, partly offset by contract losses including with the Co-operative Bank.

The 13.5% step-up in adjusted profit before tax<sup>1</sup> reflected the revenue trends noted above, in particular the commercial settlement in Experience, and a reduction in bonuses and variable pay, offset by increased financing costs.

Adjusted basic earnings per share<sup>1</sup> reduced to 1.70p (2022: 2.64p) as the increase in adjusted profit before tax<sup>1</sup> was offset by an increase in the adjusted current tax charge to £30.4m (2022: £6.4m). The adjusted current tax charge

### Summary of financial performance

	Financial highlights					
	Reported results			Adjusted <sup>1</sup> results		
	31 December 2023	31 December 2022	Reported YoY change	31 December 2023	31 December 2022	Adjusted <sup>1</sup> YoY change
Revenue	<b>£2,814.6m</b>	£3,014.6m	(6.6)%	<b>£2,642.1m</b>	£2,609.0m	1.3%
Operating (loss)/profit	<b>£(52.0)m</b>	£(79.6)m	35%	<b>£106.5m</b>	£78.0m	37%
EBITDA	<b>£144.5m</b>	£235.7m	(39)%	<b>£214.6m</b>	£204.4m	5%
(Loss)/profit before tax	<b>£(106.6)m</b>	£61.4m	n/a	<b>£56.5m</b>	£49.8m	14%
Basic (loss)/earnings per share	<b>(10.60p)</b>	4.47p	n/a	<b>1.70p</b>	2.64p	(36)%
Operating cash flow*	<b>£81.2m</b>	£156.4m	(48)%	<b>£97.4m</b>	£128.4m	(24)%
Cash generated from operations*	<b>£8.7m</b>	£117.8m	(93)%	<b>£41.2m</b>	£98.4m	(58)%
Free cash flow <sup>*,2</sup>	<b>£(154.9)m</b>	£(31.5)m	(392)%	<b>£(115.5)m</b>	£(42.4)m	(172)%
Net debt	<b>£(545.5)m</b>	£(482.4)m	£(63.1)m	<b>£(545.5)m</b>	£(482.4)m	£(63.1)m
Net financial debt (pre-IFRS 16)	<b>£(182.1)m</b>	£(84.9)m	£(97.2)m	<b>£(182.1)m</b>	£(84.9)m	£(97.2)m

\* Adjusted operating cash flow, cash generated from operations and free cash flow exclude the impact of business exits (refer to note 2.9)

in 2023 reflects an £18.1m charge mainly in respect of losses not recognised for tax purposes which is shown in the income statement. There is an offsetting current tax credit arising on pension deficit contributions which is recognised in other comprehensive income rather than the income statement. While the adjusted earnings per share are impacted by a particularly high effective tax rate in 2023’s income statement, the underlying rate of cash tax for the Group is much lower and we anticipate cash tax payments in 2024 of less than £10m.

The reported loss before tax of £106.6m (2022: profit £61.4m), reflects exceptional costs incurred in resolving the March 2023 cyber incident (£25.3m), costs incurred to deliver the significant cost reduction programme announced in November 2023 (£54.4m) and lower gains on the sale of businesses (2023: loss £2.4m; 2022: gain £166.9m). These negative year-on-year impacts were partially offset by the increase in adjusted profit before tax<sup>1</sup> (£6.7m) and lower goodwill impairment (2023: £42.2m; 2022: £169.0m).

1. Refer to APMs on pages 230 to 233.

2. From 1 January 2023 free cash flow and free cash flow excluding business exits are presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented.

## I Chief Financial Officer's review *continued*

The reduction from reported basic earnings per share to a reported loss per share reflects the reduction in reported profit before tax noted above, compounded by the swing from a reported income tax credit to an income tax charge. The reported income tax charge in 2023 reflects changes in the accounting estimate of recognised deferred tax assets, unrecognised current year tax losses and non-deductible goodwill impairment. The reported tax credit in the prior period reflected an increase in the recognised deferred tax asset.

Cash generated from operations excluding business exits<sup>1</sup> decreased, as expected, from £98.4m to £41.2m, driven by the cash costs of the cyber incident and higher working capital outflows partly offset by reduced outflows in respect of provisions.

Free cash flow excluding business exits<sup>1,2</sup> in the year ended 31 December 2023 was an outflow of £115.5m (2022: outflow £42.4m). This reflects the reduction in cash generated from operations and increased capital expenditure from technology investment across the Group.

The decrease in free cash flow<sup>1,2</sup> reflects the above reduction in free cash flow excluding business exits<sup>1,2</sup>, a cash outflow from business exits, and an increase in pension deficit contributions triggered by disposals.

As part of our drive for simplification of the business, and strengthening the balance sheet, we have continued to dispose of non-core businesses. During 2023 we completed the disposal of the Resourcing, Security Watchdog, PageOne, Enforcement, Software, and Travel businesses, realising total proceeds net of disposal costs of £96.8m (including settlement

of intercompany balances on completion) with net cash proceeds of £63.4m reflecting the cash held in the disposed entities on completion. On 4 December 2023, we announced the disposal of the Group's 75% shareholding in Fera Science Limited (Fera), realising gross proceeds of £62m. The Group received net cash proceeds of £51m reflecting the total proceeds less cash held in the entity when the disposal completed on 17 January 2024, and disposal costs.

These disposals completed the Board-approved Portfolio c.£500m business disposal programme. The Group is using the proceeds from this disposal programme to repay debt, to make further deficit reduction contributions to the Group's defined benefit pension scheme and to invest in driving growth in the remaining core businesses. In 2023, we repaid £112.5m of private placement loan notes and made pension deficit contributions of £46.3m (£30.0m regular contributions and £16.3m acceleration of agreed contributions triggered by disposals).

We have incurred costs associated with the cyber incident detailed in the Chief Executive Officer's review. These costs comprise specialist professional fees, recovery and remediation costs and acceleration of investment to reinforce Capita's cyber security environment. A charge of £25.3m has been recognised in the year ended 31 December 2023 and has been excluded from adjusted profit. This excludes any potential insurance recovery as this had not yet met the criteria for recognition at the year end. The cash outflow in respect of the cyber incident in the year was £20.1m which is included within free cash flow and cash generated from operations excluding business exits<sup>1</sup>.

We announced the implementation of a cost reduction programme in November 2023 which is expected to deliver annualised efficiencies of £60m from Q1 2024. Following the announcement, we commenced employee consultation programmes, and exited a number of leased properties. As a result, a charge of £54.4m has been recognised in the year ended 31 December 2023. As noted in November 2023, we have continued to evaluate additional cost saving opportunities and have identified further efficiency actions which we intend to take and which are expected to deliver an additional £100m of annualised cost savings by mid 2025. We expect to reinvest a proportion of these further savings back into the business to enhance the Group's technology, service delivery and pricing proposition.

The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. In June 2023, the Group's revolving credit facility (RCF) was extended to 31 December 2026 at £284m, reducing to £250m by 1 January 2025 as a consequence of specified transactions. As such at 31 December 2023 the RCF commitment had been reduced to £260.7m (2022: £288.4m) and was subsequently reduced to £250.0m on 23 January 2024 following receipt of proceeds from the Fera disposal. The RCF was not drawn upon at 31 December 2023 (2022: undrawn).

In July 2023 the Group issued £101.9m equivalent of US private placement loan notes across three tranches: £50m maturing 25 July 2026, USD45m maturing 25 July 2026 and USD23m maturing 25 July 2028.

The RCF extension and private placement loan note issuance are a demonstration of debt providers' confidence in Capita and have enabled us to extend significantly the average maturity of our debt funding.

**“The RCF extension and private placement loan note issuance are a demonstration of debt providers' confidence in Capita and have enabled us to extend significantly the average maturity of our debt funding”**

The Group reached agreement with the Trustees of the Group's main pension scheme (the Scheme), in respect of the March 2023 triennial funding review. Given the healthy funding position of the Scheme, the 2023 agreement does not require any further deficit contributions from the Group other than those already committed as part of the 2020 triennial valuation. In accordance with the 2020 agreement, we have paid £30.0m of regular deficit contributions and £16.3m of contributions triggered by business disposals in 2023 and will pay a further £21m of contributions in 2024, with no further deficit contributions in 2025 and beyond.

### Summary of financial performance

#### Adjusted results

Capita reports results on an adjusted basis to aid understanding of business performance. The Board has adopted a policy of disclosing separately those items that it considers are outside the underlying operating results for the particular period under review and against which the Group's performance is assessed internally. In the directors' judgement, these items need to be disclosed separately by virtue of their nature,

1. Refer to APMs on pages 230 to 233.

2. From 1 January 2023 free cash flow and free cash flow excluding business exits are presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented.

## I Chief Financial Officer's review *continued*

size and/or incidence for users of the financial statements to obtain an understanding of the financial information and the underlying in-period performance of the business. In general, the Board believes that alternative performance measures (APMs) are useful for investors because they provide further clarity and transparency of the Group's financial performance and are closely monitored by management to evaluate the Group's operating performance to facilitate financial, strategic and operating decisions.

Following feedback from investors, the Board has revised its definition of free cash flow<sup>1</sup> and free cash flow excluding business exits<sup>1</sup> alternative performance measures. From 1 January 2023, both these metrics have been presented after deducting the capital element of lease payments and receipts, as this provides a more relevant and comparable measure of the cash generated by the Group's operations and available to fund operations, capital expenditure, non-lease debt obligations, and potential dividends. Comparative amounts have been re-presented.

In accordance with the above policy, the trading results of business exits, along with the non-trading expenses (including the income statement charges in respect of major cost reduction programmes) and gain or loss on disposals, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2022 comparatives have been re-presented to exclude 2023 business exits. As at 31 December 2023, the following businesses met this threshold and were classified as business exits and therefore excluded from adjusted results in both 2023 and 2022: AMT Sybex, Secure Solutions and Services, the

Speciality Insurance business, Trustmarque, Real Estate and Infrastructure Consultancy, Optima Legal Services, Pay360, Capita Translation and Interpreting, Resourcing, Security Watchdog, PageOne, Software, Enforcement, Travel and Fera.

Reconciliations between adjusted and reported operating profit, profit before tax and free cash flow before business exits are provided on the following pages and in the notes to the financial statements.

### Adjusted revenue

Adjusted revenue<sup>1</sup> growth was 1.3% year-on-year. The adjusted revenue<sup>1</sup> was impacted by the following:

- **Public Service** (0.3% growth): growth was underpinned by indexation, scope increases and improved trading on a number of contracts including the Royal Navy Training contract and the Personal Independence Payments contract. This was offset by contract hand-backs and losses in Local Public Services and non-recurrence of the contract to provide laptops to teachers in Northern Ireland in 2022; and
- **Experience** (2.5% growth): growth was driven by improved international trading, indexation, and the one-off benefit relating to a commercial settlement in the closed book Life & Pensions business, partly offset by contract losses, primarily the loss of the Co-operative Bank contract.

### Order book

The Group's consolidated order book was £5,882.6m at 31 December 2023 (2022: £5,805.2m). Additions from contract wins, scope changes and indexation in 2023 totalled £2,417.5m. This includes in Experience new wins with the Civil Service Pension Scheme and the National Transport Authority of Ireland, as well as the renewal with Vattenfall. Public Service

### Adjusted revenue<sup>1</sup> bridge by division

	Public Service £m	Experience £m	Total £m
<b>Year ended 31 December 2022</b>	1,454.8	1,154.2	2,609.0
Net growth	3.8	29.3	33.1
<b>Year ended 31 December 2023</b>	<b>1,458.6</b>	<b>1,183.5</b>	<b>2,642.1</b>

### Adjusted profit before tax<sup>1</sup> bridge by division

	Public Service £m	Experience £m	Capita plc £m	Total £m
<b>Year ended 31 December 2022</b>	93.7	35.7	(79.6)	49.8
Net growth/(reduction)	(4.4)	15.2	(4.1)	6.7
<b>Year ended 31 December 2023</b>	<b>89.3</b>	<b>50.9</b>	<b>(83.7)</b>	<b>56.5</b>

won new contracts including the Functional Assessment Service for the Department of Work and Pensions and a significant contract with the City of London Police, as well as an extension to the Recruiting Partnering Project with the British Army and expanded scope on the Transport for London contract.

These additions were offset by the reduction from revenue recognised in the year (£2,101.0m), contract terminations (£174.7m) and business disposals (£64.4m).

The Group's order book does not include those contracts which are framework agreements such as the new Virgin Media O2 contract as these do not meet the accounting criteria for order book recognition.

### Adjusted profit before tax

Adjusted profit before tax<sup>1</sup> increased in 2023. The adjusted profit before tax<sup>1</sup> was driven by the following:

- **Public Service:** the beneficial impact of the scope increases and improved trading on a number of contracts discussed above, offset by the impact of contract exits in Local Public Service;
- **Experience:** the flow through of the revenue benefits noted above, in particular the closed book Life & Pensions contract settlement, as well as higher interest receipts in our pension business partly offset by flow through of prior year contract losses in particular the Co-operative Bank and continued attrition in the remaining Life & Pensions business; and
- **Capita plc:** the impact of the reallocation of central costs previously allocated to Capita Portfolio to Capita plc in 2022, increased financing cost and the non-recurrence of gains on investments in 2022.

1. Refer to APMs on pages 230 to 233.

## I Chief Financial Officer's review *continued*

### Adjusted tax charge/(credit)

The adjusted income tax charge for the year was £31.1m (2022: £4.4m) including £30.4m of current tax (2022: £6.4m). There is a current tax credit arising on pension deficit contributions recognised in other comprehensive income (OCI) rather than the income statement. If the current tax that is flowing through OCI is taken into account, the total current charge is more closely aligned to the current tax payable in respect of the year.

### Cash generated from operations and free cash flow

Adjusted operating cash conversion<sup>1</sup> decreased to 45% (2022: 63%), driven by:

- the reduction in working capital, which reflects the £28.0m benefit in 2022 of a step-up in the usage of the Group's non-recourse facilities in 2022 whereas in 2023 there was a £9.3m reduction in usage, a reduction in the accrual for management bonuses and variable pay, and the non-cash nature of the commercial settlement in the closed book Life & Pensions business in Experience; and
- the lower outflow related to provisions in 2023 reflected in the movement in non-cash and other adjustments.

Cash generated from operations excluding business exits<sup>1</sup> reflects the above and the direct cash flow impact of the cyber incident (£20.1m). The £30.0m of pension deficit contributions are in line with the deficit funding contribution schedule previously agreed with the scheme trustees as part of the 2020 triennial valuation.

Free cash flow before business exits<sup>1,2</sup> for the year ended 31 December 2023 was an outflow of £115.5m (2022: outflow £42.4m). This reflects

the reduction in cash generated from operations and increased capital expenditure on technology across the Group.

### Reported results

#### Adjusted to reported profit

As noted above, to aid understanding of our underlying performance, adjusted operating profit<sup>1</sup> and adjusted profit before tax<sup>1</sup> exclude a number of specific items, including the amortisation and impairment of acquired intangibles and goodwill, the impact of business exits, and, in 2023, the impacts of the cyber incident and cost reduction programme.

#### Impairment of goodwill

In preparing its half yearly condensed consolidated financial statements at 30 June 2023, and these consolidated financial statements at 31 December 2023, the Group undertook detailed impairment reviews.

At 30 June 2023 a goodwill impairment of £42.2m was recognised. This comprised:

- £35.3m: in respect of CGUs in the Group's Portfolio division where the disposal processes of the businesses aligned to these CGUs were sufficiently advanced that the Board's judgement was that for impairment testing purposes the value in use of these CGUs should be determined based on the future cash flows of the CGUs from continuing use, up to the estimated date of disposal, plus an estimate of the sale proceeds less cost of disposal. The impairments arose primarily due to the expectation of acquirers factoring in additional investment and costs required to run the businesses outside the Group, and general macroeconomic conditions; and

### Adjusted operating profit to free cash flow excluding business exits<sup>1,2</sup>

	2023 £m	2022 £m
<b>Adjusted operating profit<sup>1</sup></b>	<b>106.5</b>	78.0
Add: depreciation/amortisation and impairment of property, plant and equipment, right-of-use assets and intangible assets	108.1	126.4
<b>Adjusted EBITDA<sup>1</sup></b>	<b>214.6</b>	204.4
Working capital	(110.7)	(30.7)
Non-cash and other adjustments	(6.5)	(45.3)
<b>Operating cash flow excluding business exits<sup>1</sup></b>	<b>97.4</b>	128.4
<b>Adjusted operating cash conversion<sup>1</sup></b>	<b>45%</b>	63%
Pension deficit contributions	(30.0)	(30.0)
Cyber incident	(20.1)	–
Cost reduction programme	(6.1)	–
<b>Cash generated from operations excluding business exits<sup>1</sup></b>	<b>41.2</b>	98.4
Net capital expenditure	(58.9)	(38.0)
Interest/tax paid	(45.1)	(47.5)
Net capital lease payments	(52.7)	(55.3)
<b>Free cash flow excluding business exits<sup>1,2</sup></b>	<b>(115.5)</b>	(42.4)

### Adjusted<sup>1</sup> to reported results bridge

	Operating (loss)/profit		(Loss)/profit before tax	
	2023 £m	2022 £m	2023 £m	2022 £m
<b>Adjusted<sup>1</sup></b>	<b>106.5</b>	78.0	<b>56.5</b>	49.8
Amortisation and impairment of acquired intangibles	(0.2)	(5.1)	(0.2)	(5.1)
Impairment of goodwill	(42.2)	(169.0)	(42.2)	(169.0)
Net finance costs/(income)	–	–	(2.2)	3.4
Business exits	(36.4)	16.5	(38.8)	182.3
Cyber incident	(25.3)	–	(25.3)	–
Cost reduction programme	(54.4)	–	(54.4)	–
<b>Reported</b>	<b>(52.0)</b>	(79.6)	<b>(106.6)</b>	61.4

1. Refer to APMs on pages 230 to 233.

2. From 1 January 2023 free cash flow and free cash flow excluding business exits are presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented.

## I Chief Financial Officer's review *continued*

- £6.9m: in respect of a business in the Business Solutions group of CGUs in Portfolio. The impairment arose primarily due to a negotiated exit of an end customer, which has negatively impacted the forecast financial performance of the business.

At 31 December 2023, no further goodwill impairment was identified.

Refer to note 3.4 to the consolidated financial statements for further details.

### Business exits

Business exits include the effects of businesses that have been disposed of or exited during the period and the results of businesses held for sale at the balance sheet date.

In accordance with our policy, the trading results of these businesses, along with the non-trading expenses and gains/(losses) recognised on business disposals, were classified as business exits and therefore excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2022 comparatives have been re-presented to exclude the 2023 business exits.

In addition to the disposals set out in the table to the right, the Group decided to exit a small business in Public Service in the second half of the year, and the trading result and non-trading expenses of this business have been excluded from adjusted results.

### Cyber incident

The Group has incurred exceptional costs associated with the cyber incident, reflecting the complexity of the forensic analysis of exfiltrated data. These costs comprise specialist professional fees, recovery and remediation costs and investment to reinforce Capita's cyber security environment. A charge of £25.3m has been recognised in the year ended 31 December 2023. This charge excludes any potential insurance recovery, as this had not yet met the criteria for recognition at the end of the year, and no provision has been made for any costs in respect of potential claims or regulatory penalties in respect of the incident as it is not possible, at this stage, to reliably estimate their value.

Further detail of the specific items charged in arriving at reported operating profit and profit before tax for 2023 is provided in note 2.4 to the consolidated financial statements.

### Cost reduction programme

We announced the implementation of a major cost reduction programme in November 2023 which is expected to deliver annualised efficiencies of £60m from Q1 2024. Following this announcement, we commenced employee consultation programmes and exited a number of leased properties. The organisational changes primarily impacted indirect support function and overhead roles.

### At 31 December 2023 business exits primarily comprised the following business disposals:

Business	Disposal completed on
Resourcing	31 May 2023
Security Watchdog	31 May 2023
Page One	31 July 2023
Software	31 July 2023
Enforcement	31 July 2023
Travel	14 November 2023
Fera	17 January 2024

A charge of £54.4m has been recognised in the year ended 31 December 2023, comprising £23.3m of redundancy and other costs, and impairments of right-of-use assets and property, plant and equipment, and provisions of unavoidable running costs in respect of the property exits totalling £31.1m. The cash outflow in 2023 in respect of the cost reduction programme was £6.1m which is included within free cash flow and cash generated from operations excluding business exits<sup>1</sup>. The Group continues to evaluate additional cost saving opportunities and expects to implement further cost reduction initiatives expected to deliver annualised efficiencies of £100m by the middle of 2025. These further cost reduction initiatives are expected to result in a step up in cost reduction programme cash costs in 2024 from £21m arising from the programme announced in November 2023 to an estimated £50m for the overall programme.

### Net finance costs

Net finance costs increased by £20.5m to £52.2m (2022: £31.7m), primarily attributable to the higher interest rate environment and run-off of low-coupon debt.

### Reported tax charge/(credit)

The reported income tax charge for the year of £74.0m (2022: credit £14.6m) reflects the changes in the accounting estimate of recognised deferred tax assets, unrecognised current year tax losses and non-deductible goodwill impairment. The prior period credit reflected an increase in the recognised deferred tax asset.

1. Refer to APMs on pages 230 to 233.

## I Chief Financial Officer's review *continued*

### Free cash flow to free cash flow excluding business exits

Free cash flow<sup>1,2</sup> was lower than free cash flow excluding business exits<sup>1,2</sup> reflecting free cash outflows generated by business exits, and pension deficit contributions triggered by the disposal of Pay360 and Capita Translation and Interpreting in the second half of 2022 and Resourcing in 2023.

### Movements in net debt

Net debt at 31 December 2023 was £545.5m (2022: £482.4m). The increase in net debt over the year ended 31 December 2023 reflects the free cash outflow noted above offset by the continued reduction in our leased property estate. Net financial debt (pre-IFRS 16) at 31 December 2023 was £182.1m (2022: £84.9m).

Net financial debt (pre-IFRS 16) increased by £97.2m to £182.1m at 31 December 2023, resulting in a net financial debt to adjusted EBITDA<sup>1</sup> (both pre-IFRS 16) ratio of 1.2x. Over the medium term the Group is targeting a net financial debt to adjusted EBITDA<sup>1</sup> (both pre-IFRS 16) ratio of ≤1.0x. If the sale of the Group's investment in Fera had completed at 31 December 2023, the ratio would have been 0.9x<sup>1</sup>.

The Group was compliant with all debt covenants at 31 December 2023.

### Capital and financial risk management

Liquidity remains an area of focus for the Group. Financial instruments used to fund operations and to manage liquidity comprise US private placement loan notes, RCF and overdrafts.

The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. In June 2023, the RCF was extended to 31 December 2026 at £284m, reducing to £250m by 1 January 2025 as a consequence of specified transactions. As such at 31 December 2023 the RCF commitment had been reduced to £260.7m (2022: £288.4m) and was subsequently reduced to £250m on 23 January 2024 following receipt of proceeds from the Fera disposal.

The RCF was not drawn upon at 31 December 2023 (2022: undrawn).

In addition, the Group has in place non-recourse trade receivable financing, utilisation of which has become economically more favourable than drawing under the RCF as prevailing interest rates have increased. As such, the Group has continued its use of the facility across the year with the value of invoices sold under the facility at 31 December 2023 of £35.2m (2022: £44.4m).

In July 2023 the Group issued £101.9m equivalent of US private placement loan notes across three tranches: £50m maturing 25 July 2026, USD45m maturing 25 July 2026 and USD23m maturing 25 July 2028.

In 2023, the Group repaid £112.5m of private placement loan notes including £30.3m of Euro private placement loan notes which were originally due in 2027, following which the next debt maturity is January 2025.

At 31 December 2023, the Group had £67.6m (2022: £177.2m) of cash and cash equivalents net of overdrafts, and £262.5m (2022: £285.5m) of private placement loan notes and fixed-rate bearer notes.

### Free cash flow<sup>1,2</sup> to free cash flow excluding business exits<sup>1</sup>

	2023 £m	2022 £m
<b>Free cash flow<sup>1,2</sup></b>	<b>(154.9)</b>	(31.5)
Business exits	<b>23.1</b>	(19.5)
Pension deficit contributions triggered by disposals	<b>16.3</b>	8.6
<b>Free cash flow excluding business exits<sup>1,2</sup></b>	<b>(115.5)</b>	(42.4)

### Net debt

	2023 £m	2022 £m
<b>Opening net debt</b>	<b>(482.4)</b>	(879.8)
Cash movement in net debt	(9.0)	438.2
Non-cash movements	(54.1)	(40.8)
<b>Closing net debt</b>	<b>(545.5)</b>	(482.4)
Remove closing IFRS 16 impact	363.4	397.5
<b>Net financial debt (pre-IFRS 16)</b>	<b>(182.1)</b>	(84.9)
Cash and cash equivalents net of overdrafts	67.6	177.2
Financial debt net of swaps	(249.7)	(262.1)
<b>Net financial debt/adjusted EBITDA<sup>1</sup> (both pre-IFRS 16)</b>	<b>1.2x</b>	0.5x
<b>Net debt (post-IFRS 16)/adjusted EBITDA<sup>1</sup></b>	<b>2.4x</b>	2.0x

### Available liquidity<sup>1</sup>

	2023 £m	2022 £m
Revolving credit facility (RCF)	<b>260.7</b>	288.4
Less: drawing on committed facilities	–	–
<b>Undrawn committed facilities</b>	<b>260.7</b>	288.4
Cash and cash equivalents net of overdrafts	67.6	177.2
Less: restricted cash	(46.0)	(60.4)
<b>Available liquidity<sup>1</sup></b>	<b>282.3</b>	405.2

1. Refer to APMs on pages 230 to 233.

2. From 1 January 2023 free cash flow and free cash flow excluding business exits are presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented.

## I Chief Financial Officer's review *continued*

### Going concern

The Board closely monitors the Group's funding position throughout the year, including compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. In addition, to support the going concern assumption, the Board conducts a robust assessment of the projections, considering also the committed facilities available to the Group.

The Group and Parent Company continue to adopt the going concern basis in preparing these consolidated financial statements as set out in Section 1 to the consolidated financial statements.

### Viability assessment

The Board's assessment of viability over the Group's three-year business planning time horizon is summarised in the viability statement on page 64.

### Pensions

The Group reached agreement with the Trustees of the Group's main pension scheme (the Scheme) in respect of the March 2023 triennial funding review. Given the healthy funding position of the Scheme, the 2023 agreement does not require any further deficit recovery contributions from the Group other than those already committed as part of the 2020 triennial valuation.

In accordance with the 2020 agreement, the Group paid £30.0m of regular deficit funding contributions in 2023 and will pay a further £21m of contributions in 2024, with no further deficit contributions in 2025 and beyond. In addition, the Group paid £16.3m of accelerated deficit reduction contributions triggered by the disposal of certain businesses in the second half of 2022 and in 2023.

The valuation of the Scheme liabilities (and assumptions used) for funding purposes (the actuarial valuation) is specific to the circumstances of the Scheme. It differs from the valuation and assumptions used for accounting purposes, which are set out in IAS 19 and shown in these consolidated financial statements. The main difference is in assumption principles being used, which is a result of the different regulatory requirements of the valuations. Management estimates that at 31 December 2023 the net asset of the Scheme on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2023 updated for market conditions at 31 December 2023) was approximately £81.0m (2022: net asset £40.0m) on a technical provisions basis. The Trustee of the Scheme has also agreed a secondary more prudent funding target to enable it to reduce the reliance the Scheme has on the covenant of the Group. On this basis, at 31 December 2023, the funding level was around 99% (or a net liability of £6m). The deficit of £6m is expected to be met by the remaining deficit contributions.

The net defined benefit pension position of all reported defined benefit schemes for accounting purposes decreased from a surplus of £39.6m at 31 December 2022 to a surplus of £26.8m at 31 December 2023. The main reasons for this movement are the reduction in the discount rate applied to the schemes' liabilities following the fall in corporate bond yields in the final quarter of 2023 and assets returning less than expected over the period, partially offset by the above deficit funding contributions.

### Consolidated balance sheet

At 31 December 2023 the Group's consolidated net assets were £114.9m (2022: net assets £352.7m).

The movement is predominantly driven by the reported loss before tax for the year as explained above, the actuarial loss on all reported defined benefit pension schemes and the reduction in the amount of deferred tax assets recognised.

### Parent company balance sheet

The company's market capitalisation continues to be significantly less than the net assets of the parent company at 31 December 2023 and the directors gave consideration as to why this might be the case and whether assets on the parent company balance sheet might be impaired. The factors considered included: the differing basis of valuations (including that third parties value the services sector on income statement multiples versus long-term view using a discounted cash flow for the basis of impairment testing under accounting standards), sum-of-the parts view and the multiples achieved on recent disposals, general market assumptions of the sector which can ignore the liquidity profile and specific risks of an entity, and other specific items impacting the market's view of the Group at the moment.

Management's estimate of the fair value less costs to sell of the Group used in the testing of goodwill and intangibles for impairment at 31 December 2023 gave a value for the Group that exceeded the market capitalisation at that date, and supported the parent company net assets.

An impairment test was performed at 31 December 2023 in respect of the parent company's investments in subsidiaries and amounts owed by subsidiary undertakings. A net impairment reversal of £1.7m was identified in respect of the parent company's investments in subsidiaries, and a net impairment of £0.4m was recognised in respect of amounts owed by subsidiaries.

"The Group reached agreement with the Trustees of the Group's main pension scheme in respect of the March 2023 triennial funding review... with no further deficit contributions in 2025 and beyond"

# Prioritising what matters

Being a responsible organisation is a priority for Capita

The commitment to being a responsible organisation continues to be a priority for Capita. This means a constant, Group-wide focus on how we operate for all our stakeholders – employees, shareholders, clients, end-users and communities.

Our ESG (environmental, social and governance) Committee, continued their work in 2023, focusing on responsible business challenges, and providing additional strategic oversight, accountability and guidance.

Our approach to being a responsible business has ensured that we remained focused on supporting the United Nations' Sustainable Development Goals (UNSDGs) as well as addressing the issues where we can have the biggest impact – through our own operations, and the products and services we provide to our clients.

In 2023, our activities continued to be focused on: building a more inclusive organisation and supporting our colleagues' wellbeing; tackling economic inequality; reducing our environmental impact; and operating responsibly.

Among the significant range of activities delivered, we are most proud of:

- our science-based climate targets, including the collaborative work we have undertaken with our suppliers;
- the substantial progress towards our diversity goals including a decrease in our pay gap of more than 5% compared with 2022, and being

ranked 18 out of 400 on the Forbes global list of top employers for women;

- our flexible working commitment;
- our continuous focus on wellbeing, health and the safety of our colleagues; and
- supporting our communities with our volunteering, payroll giving, apprenticeship levy, gifting and fundraising programmes.

We also need to respond to a rapidly changing external environment and difficult economic situation, which affect the way we operate.

At the end of 2023, we took the difficult decision to withdraw from the UK's real living wage. Since 2020, the Group has increased the salaries of our lowest earners by 22% and the 2024 real living wage increase of 10.1% was not something we could commit to given the need for Capita to remain cost competitive, and reflecting the fact that this is not a cost we are able to pass on to clients.

We are, therefore, refreshing our responsible business principles to ensure they prioritise the areas of greatest concern for our organisation, which includes the right governance, reporting and risk management framework.

We will publish our updated principles and responsible business progress report on our website later in 2024.

## 2023 performance highlights

Wellbeing index (2022: 71%)

72%

Inclusion index (2022: 74%)

77%

Colleagues who feel they can be themselves at work (2022: 83%)

84%

Colleagues supported through the SafetyNet\* process (2022: 219)

246

Colleagues feel safe at work (2022: 90%)

90%

Capita plc awarded

EcoVadis Silver award

Payroll giving (2022: £180,000)

£141,000

Of our senior leaders are women\*\* (2022: 26%)

40%

Women on the Board\*\* (2022: 56%)

56%

Ethnic minority representation on the Board\*\* (2022: 22%)

22%

Volunteering hours logged (2022: 7,800)

21,000

Achieved

'A'

CDP (Carbon Disclosure Project) score in 2023, up from D in 2019

Cabinet Office compliance in the modern slavery assessment tool

96%

Reported breaches of human rights or modern slavery legislation (2022: zero)

Zero

\* see page 37 for further information on SafetyNet

\*\* see page 36 for further information on gender and ethnicity representation

## I Responsible business

# Responsible business at a glance

We are committed to being a responsible business – in how we operate, serve society, respect our people and the environment, and deliver improving returns to our investors.



**Our people – see pages 32 to 37 for more information. Also read our gender and ethnicity pay gap reporting online.**

We want to make Capita a place that people want to join and where they want to stay – a workplace that delivers on our four employee value proposition themes: be yourself; make an impact; expand your horizons; and shape our future. We recognise the contributions of all colleagues, supporting and paying them fairly for the work they do.

Key metrics	2023	2022
eNPS (points)	-4	-9
Voluntary turnover (%)	24	30
Employee engagement index (%)	67	65
People survey response rate (%)	69	72



**Our customers and clients – see pages 43 and 44 for more information. Also read our supplier charter and human rights policy online.**

Our reputation depends on delighting our customers and clients. We are committed to working with our supply-chain to ensure that together we can achieve wider social, economic and environmental benefits.

Key metrics	2023	2022
cNPS (points)	+16	+35
Supplier payment within 60 days (%)	99	99



**The environment – see pages 40 to 42 and the TCFD section for more information. Also read our achieving net zero report online.**

Our three-phased approach aims to reach operational net zero by 2030; operational and business travel net zero by 2035; and full net zero by 2045.

Key metrics	2023	2022
Change in carbon footprint (tCO <sub>2</sub> e) <sup>1</sup>	+1,169	(4,322)

1. Units have been corrected to tCO<sub>2</sub>e from prior reporting in million gross tonnes.



**Our investors – see page 47 for more information.**

Input and feedback from our investors form important elements of our decision making and strategic planning.

Key metrics	2023	2022
TSR (%)	(9.3)	(33.5)
Number of institutional contacts met in the year	86	98

# United Nations Sustainability Development Goals

## Delivering against the United Nations Sustainable Development Goals

<p><b>Goal 3:</b> Ensure healthy lives and promote well-being for all at all ages</p> 	<p><b>Goal 5:</b> Achieve gender equality and empower all women and girls</p> <p><b>Goal 10:</b> Reduce inequality within and among countries</p>  	<p><b>Goal 8:</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p> 	<p><b>Goal 13:</b> Take urgent action to combat climate change and its impact</p> 
<p>We prioritise the wellbeing, safety, and health of our workforce</p>	<p>We are committed to retaining female and ethnically diverse talent as well as increasing the proportion of diverse hires at all levels of our business</p>	<p>We operate as a responsible, ethical business and continuously strive to create a great in-work experience for all our people</p>	<p>We are tackling climate change, reducing our environmental impact, and working with our clients and suppliers to help them do the same</p>

### How we support realisation of these goals

<ol style="list-style-type: none"> <li>1. We promote wellbeing, health and safety throughout our policies and standards</li> <li>2. We keep our employees safe and healthy at work</li> <li>3. We have comprehensive safeguarding standards and procedures</li> <li>4. We continuously work to understand, support and improve the wellbeing of our global workforce</li> <li>5. We offer occupational health to all employees as required, and provide targeted health support for employees in high-risk business areas</li> <li>6. We offer an employee assistance programme or similar for all our employees globally</li> <li>7. We are committed to virtual first and flexible work wherever possible</li> </ol>	<ol style="list-style-type: none"> <li>1. We promote inclusion, diversity and equity throughout our policies and standards</li> <li>2. We are committed to our recruitment, retention and progression action plan, which includes:             <ol style="list-style-type: none"> <li>a. Licence to hire – inclusive recruitment training</li> <li>b. Internal first policy – vacancies advertised internally initially to focus on internal growth</li> <li>c. Members of the Moving Ahead programme</li> <li>d. Mutual mentoring programmes for female and Black, minority ethnic colleagues</li> <li>e. RISE (reduce inequality and strive for equality) development programmes</li> </ol> </li> <li>3. We aim to increase gender balance in leadership, senior level roles and across our organisation</li> <li>4. We provide access to an independent Speak Up process to raise a concern</li> <li>5. We work closely with our gender and EmbRACE employee network groups to evolve and adapt our policies, procedures and standards to be as inclusive as possible</li> </ol>	<ol style="list-style-type: none"> <li>1. We have a clear code of conduct on which every employee is trained, and has the opportunity to independently and anonymously raise any breaches or concerns</li> <li>2. We are a good citizen, paying taxes in line with fair tax mark as well as paying our suppliers on time, adhering to the prompt payment code</li> <li>3. We operate with fiscal responsibility, maintaining appropriate debt levels</li> <li>4. We are proactive in the prevention of bribery, corruption, fraud tax evasion and anticompetitive practice</li> <li>5. We perform consistently against recognised ESG metrics, verified by accreditations such as EcoVadis, the Dow Jones Sustainability Indices and Sustainabilitytics</li> <li>6. We listen to employees' views, and act on their feedback, aiming to create a consistently great employee experience for everyone</li> <li>7. We work with our employee network groups to evolve and adapt our policies, procedures and standards to be as inclusive as possible</li> <li>8. We operate on an internal-first talent model, aiming to grow our own people, build skills and create great careers</li> </ol>	<ol style="list-style-type: none"> <li>1. We promote climate change mitigation and environmental matters throughout our policies and standards</li> <li>2. We engage with our suppliers through CDP supply chain membership, and ask them to disclose to CDP and set science-based targets</li> <li>3. We work with our clients to drive decarbonisation and help them to achieve their net zero goals</li> <li>4. We have continued the consolidation of our property portfolio, asking landlords to increase the percentage of renewable energy used and implementation of energy efficiency initiatives and solutions</li> <li>5. We are accelerating the move to hybrid and electric vehicles with supporting infrastructure</li> <li>6. We are committed to virtual first and flexible working wherever possible</li> <li>7. We have introduced incentives, linked to net zero for our executives and management</li> <li>8. As part of our business review process, we report quarterly on carbon emissions against target at divisional level</li> </ol>
<p>➤ For more information about our workforce practices on wellbeing, safety and health, see page 37</p>	<p>➤ For more information about our commitment to people, see pages 32 to 37 and our gender and ethnicity pay gap report</p>	<p>➤ For more information about our commitment to growth and people, see pages 32 to 37 and 43 and 44</p>	<p>➤ For more information about our work to fight climate change, see pages 40 to 42</p>

# Creating a compelling people experience

## Workforce

# 43,000

people employed in 11 countries

2023 saw a continued commitment to creating a workplace that delivers on our four-employee value proposition (EVP) themes: be yourself; make an impact; expand your horizons; and shape our future. These themes were augmented by our #bebrilliantbeyou campaign which was received well externally and internally.

We were therefore particularly pleased to see continuing improvements in our employee net promoter score (eNPS), our engagement index, and our wellbeing and inclusion indices. These, combined with a reduction in our voluntary attrition levels and recruitment of the resources we need to meet the needs of our customers, evidences an improving colleague experience. We continued with our commitment to internal mobility with more roles than ever being filled by talented internal colleagues through people processes that are now simpler and applied globally.

Other headline activities included the rollout of our career path framework, supported by a fair and consistent global reward framework. We remain committed to providing equitable opportunities through diversity and inclusion, evidenced by our strong representation statistics throughout Capita and the improvement in our gender pay gap. More colleagues than ever

engaged with our digital training modules and 2023 saw the launch of both our global all colleague induction programme and a line manager induction offering. Our virtual first, hybrid working model remains an important pillar in providing flexible working solutions for our colleagues and continues to receive a positive response from colleagues.

2024 will see us continuing to focus on engaging and inspiring all our colleagues globally. Providing clarity on career opportunities, developing skills and investing in the leadership skills of our managers and leaders are key deliverables to meet the expectations of everybody who works at Capita.

As part of our future strategy, we will also reset our culture. Our culture is a critical enabler to ensuring our people can deliver on our objectives. We have identified key themes which include: accountability and ownership; moving at pace; a One Capita mindset; honesty; empathy and compassion; and a cost-conscious mindset. These themes will evolve over the coming months but the sentiment will remain. We will launch a new set of values and behaviours in the coming months to support the culture reset.

## Building an engaged workforce

We appreciate the importance of a highly engaged workforce and we continue to implement measures and interventions to ensure we achieve this. In 2023 we continued with our pulse survey, on top of our annual employee survey, to better understand how our employees were feeling, and ensure we were listening to, and acting on their feedback.

We were pleased to see that in our annual people survey, completed in October by more than 30,000 employees globally, 73% of respondents said their manager had both shared and acted on survey results. We will work to continue increasing this score in 2024.

In overall engagement, we saw positive movement in 2023: our eNPS increased by five points, while our employee engagement index increased by 2%, wellbeing index by 1% and inclusion index by 3%. In addition, 2023 was the fifth year in which employees were able to rate their line manager's performance against our manager commitments. These commitments set out the additional behaviours we expect from all our leaders and managers and affirm our commitment to be a values-driven organisation. In 2023, across all 10 commitments, more than 92% of respondents agreed that their manager demonstrated our values and behaviours, 92% of colleagues confirmed that they have open and honest communication with their line managers and 90% agreed that their manager helps everyone to succeed to their full potential. The feedback is fed into annual development discussions and can inform managers' objectives.

“I am proud of our continued progress in creating a consistent, rewarding and engaging experience for every colleague globally at Capita. 2023 saw us continue to deliver on our people goals with notable successes in attracting and retaining talented colleagues”

**Scott Hill**  
Chief People Officer



## I Responsible business ▶ Our people *continued*

### Our commitment to flexible, remote working

In a market where many companies are now expecting all employees to return to the office post-Covid, we took a clear stance at Capita to offer flexible and remote work, wherever client and business needs allow, as part of a virtual-first working approach.

We believe offering this flexibility will help us to attract and retain high-quality and increasingly diverse talent. For the second time, we asked about working arrangements in our annual people survey, and the data showed us that those who work in a hybrid model, or from home, are on average 5% more engaged than those who work solely from an office or the field. 81% of these individuals also say it is a key motivator for them to remain working at Capita, an increase of 2% compared with last year.

However, we acknowledge that fully remote working does not suit everyone, and we encourage colleagues to work from a local office when needed, or to get together for team events. We will continue to evaluate the impact of this approach in 2024.

### Performance and development

During 2023, we continued the development of our career path framework (CPF). This is a Capita-wide tool designed to enable our colleagues to plan and develop their careers. It provides a map of the whole organisation, enabling colleagues to view the role they are in, behavioural, leadership and technical competencies for roles across the organisation and identify what they need to do to progress and move to another position in the organisation. This framework forms the foundation of many of our development and people processes.

We continue with our annual appraisal process which includes a discussion based on the colleague's achievement against their objectives, values, strengths, areas for development, feedback, future targets as well as learning needs, and plan for career progression. Reviews are multidimensional with a focus on both the 'what' in terms of performance against objectives and the 'how' performance against our Capita Values. Employees are encouraged to seek 360 degree feedback and focus on their development areas. For 2023 end of year appraisals, 98% (2022: 91%) of our employees had a performance review documented in our HR system.

### Training

We continue to see positive engagement with our diverse training opportunities. Our focus is to ensure our colleagues are trained and well equipped to perform their roles and deliver on our client commitments. We also continue to provide broader training resources to enhance learning and support career development. Our focus has been on a global delivery approach to ensure consistency and building a suite of flexible resources delivered through multiple channels.

We introduced a new suite of resources to enhance leadership capability including a focus on leading oneself, leading others and leading the organisation. Included in this is a coaching framework to enable consistency and encourage more meaningful career conversations. We continue to be agile and adapt learning resources to meet the needs of the business. In 2023, we introduced a new global induction programme, which supports colleague retention through demonstrating why people are proud to work for Capita.

We developed new resources within our Academy to support colleagues' skills development in areas such as sales and data, both of which bring in external expertise to share industry best practice and help to ensure specialist knowledge is shared across our specialisms.

We are proud to have successfully continued our RISE (reduce inequality strive for equality) and RISE for women programmes which are specifically designed for Black, Asian and minority ethnic and female colleagues to help them transform their careers in Capita. We saw high levels of engagement in these programmes and many of those who have undertaken the learning have expanded their role, been promoted, or are now leading a project to drive our inclusion, diversity and equity agenda.

We launched mandatory safeguarding policy training, to raise awareness of the issues around safeguarding adults and children and most importantly how to escalate cases to get the right help. This training is aligned to our Speak Up and SafetyNet policies and is supported by our employee relations hub, helping all colleagues navigate difficult circumstances.

We are proud of our learning hub shared services model, which has enabled us to streamline our processes and aims to ensure we are utilising training resources effectively. This has also promoted our shift to a self-service for learning model, providing a wider choice of options for colleagues, moving away from a more traditional learning structure.

We will continue to focus on colleague needs, aligning learning solutions to our CPF, helping our colleagues make career choices, understanding how to upskill and prepare

“I highly recommend the RISE programme to anyone who is looking for a personal and professional transformation. Working through the modules I have discovered the value of my own experiences and being able to share those among women who can relate on all different levels has been invaluable to my learning. Being vulnerable is one of the hardest skills to master yet this programme provides you with a platform, to not only be vulnerable and open, but to feel accepted and heard. As a result of this programme, I have developed a clear vision for my career and a plan to achieve it”

#### Katie Wheeler

Talent Acquisition Partner,  
Process & Continuous Improvement  
Lead, Public Services

## I Responsible business ▶ Our people *continued*

themselves for future roles. We will continue to enhance the Capita management and leadership academy to help to ensure our managers continue to be the best version of themselves and can help lead our organisation to success.

Globally, we will continue to be curious about how technology can lend itself to help us provide a better suite of resources and help us to retain talent.

We will continue to focus on simplification, organising our resources and providing easy access for all colleagues so they can self-serve and self-develop. We will continue to build our learning suite and provide clear alignment to our career pathway framework, supporting attraction, diversity and inclusion, competency development, and retention of our talent globally.

### Professional development

At the end of 2023, we had 58 different professional development programmes available across England funded by our apprenticeship levy. We had more than 549 learners on the apprenticeship programmes and 212 learners who had successfully completed their professional development programme during the year. At the same time, the development of our managers remains a significant priority, as we continue to grow our Accelerate, Advance and Ascent programmes to upskill our line managers aligned to our Management and Leadership Academy. At the end of 2023, we had 186 managers on one of these development pathways.

During the year, we designed and launched a data apprenticeship pathway which aims to help colleagues develop their professional data skills at varying levels. The Discover, Empower, Enable and Innovate programmes are designed to expand colleagues' skills in their current roles and widen the pool of future opportunities.

As an extension of our apprenticeship offering, and in alignment with our social value and responsible business activity, we are proud to have been recognised in 2023 for gifting our apprentice levy to charities in partnership with Corndel.

### Supporting future leaders

In 2023, we enhanced our processes designed to facilitate internal mobility through our approach to talent and succession. Succession planning is an integral process helping us to identify potential in individuals and develop future talent to support organisational effectiveness and success. We conducted a comprehensive succession process for our Executive Team and top 100 leadership roles, assessing the potential of 385 colleagues and challenging ourselves on the diversity and inclusion of our talent pipelines. 44% of this population who were identified as high potential and suitable for succession are female.

To improve diversity at senior levels, we also continue to support high-potential women and individuals from underrepresented groups through cross-company mentoring opportunities. In 2023, a further 80 colleagues were enrolled in these programmes. We were delighted to win the Moving Ahead Most Dynamic Mentoring Organisation of the Year Award.

### Talent acquisition and turnover

Despite a highly competitive global talent market, in 2023 Capita continued to attract large volumes of applicants, with more than 17,000 new starters in the year, and continued the onshore, nearshore and offshore hiring strategy to leverage the global talent marketplace.

Given the challenging external economic backdrop, our focus in 2023 continued on employee retention initiatives, ensuring the best talent was nurtured and developed, and on mitigating voluntary turnover, which was 24% in 2023 down from 30% in 2022.

Our strengthened Capita-first policy saw more than 2,000 roles filled internally, just over 8% of total recruitment. We not only rolled out an internal mobility mandate, ensuring complete transparency to Capita employees on all opportunities but also achieved a reduction overall in our time to offer from 64 days in 2022 to 58 days in 2023. We ensured a focus on aged vacancies, a greater level of reporting, governance and streamlining our interview and assessment process to achieve this improvement.

Over the course of 2023, the talent acquisition resourcing function continued to enhance our operating model, heightening our candidate centric approach, driving value, quality and efficiency. We also continued to build on the refresh of our employer brand, developing new campaign material and capitalising on our EVP to attract and retain talent.

In 2024 we will continue to build on our internal mobility strategy, and further focus on retention activities in support of future growth.

### HR operations

Our people hub, which provides direct HR support to all employees, continued to deliver excellent results, with 99% of calls being answered within eight seconds. Our internal chatbot, Herbot, continued to manage high volume multi-functional transactional queries from employees, on demand. Across our people hub channels, we successfully managed more than 500,000 enquiries, incidents and data transactions throughout the year.

We continued to see positive levels of engagement with our learning resources over the past year, for example:

**c.810,000**

**digital learning modules completed – an increase of more than 240,000 on 2022**

**c.202,000**

**mandatory training modules completed – compared with c.356,000 in 2022**

**c.25,000**

**managers passport digital modules completed – an increase of almost 15,000 on 2022**

**c.13,700**

**colleagues attended live development workshops delivered by the Capita Academy**

**c.50,000**

**resources have been accessed as part of Capita's e-library, including e-books, audio learning and virtual classrooms**

**c.11**

**hours of learning completed on average by each employee, excluding technical training delivered locally**

## I Responsible business ▶ Our people *continued*

### Reward

Our fair pay agenda continues to underpin all our remuneration decisions. We continued to develop our career path framework which now covers more than 80% of our colleagues globally. This includes market informed job pay ranges and pay progression guidelines that help our managers make effective decisions. We help our managers to review salaries globally each year following these consistent principles and guidelines.

We launched tools to help govern pay decisions and check for unconscious bias, ensuring that we are recognising the contributions of all our colleagues, supporting and paying all colleagues fairly for the work they do.

Our colleagues can also choose from a range of additional benefits such as private medical insurance, cycle to work schemes and will writing as well as having access to savings and discounts from major brands through our Extras platform, which this year included the option of purchasing electric/hybrid cars through salary sacrifice.

At the end of the 2023, we took the difficult decision to withdraw from the UK's real living wage. Since 2020, the Group has increased the salaries of our lowest earners by 22% and the 2024 real living wage increase of 10.1% was not something we could commit to given the need for Capita to remain cost competitive.

We publish our gender and ethnicity pay gap report annually on our website.

### Building a more inclusive organisation

At Capita, we are committed to creating an environment where diversity is valued, respected and included in everything we do, and where we benefit from all colleagues sharing their different perspectives and bringing their whole selves to work. In this way, each person can do their part to create better outcomes. We are committed to

this goal not just because it helps us deliver better for our clients and end-users, but because we believe it's the right thing to do.

During 2023, we continued to build on our previous work to create a more inclusive workplace for all our people. Achievements and external recognition during the year included:

- Being ranked 18 out of 400 on the Forbes Global list of top employers for women, an assessment that cannot be nominated for, but is determined following anonymous interviews with thousands of employees across the globe.
- Showing a 5% reduction in our gender pay gap compared with 2022, the largest improvement since we started reporting.
- Winning Most Dynamic Mentoring Organisation award for our Moving Ahead mentoring programmes which work to equip our diverse talent with the right tools to develop their careers. So far 82% of participants have been promoted, changed roles, or their current role has expanded while on the programme.
- Continuing to support our eight global employee network groups which had more than 12,000 network members at the end of the year.
- Continuing with our mutual mentoring programmes for female, and Black and minority ethnic colleagues to raise awareness, forge relationships, create better allies and shape an inclusive culture.
- Running regular, virtual 'get involved' sessions to build awareness and understanding of our similarities and differences as well as responsible business in general. Topics covered included: inclusive communications; disability and accessibility; and neurodiversity. This was in addition to our ongoing celebration of awareness events such as: Pride; International Women's Day; International Men's Day; Racial

Equality Week; Black History Month; Mental Health Awareness week; International Day of People with Disabilities; and more general responsible business events such as Charity and Community Day, Earth Day and Anti Slavery Day.

We also celebrated our Black colleagues with our third annual Black employees awards held during Black History Month. This year was a global event sponsored by our CEO.

During the year, we undertook the Employers Network for Equality and Inclusion's industry-recognised TIDE benchmarking and were granted a Silver Tidemark. This is testimony to our ongoing diversity and inclusion commitments and practices.

In 2023 we continued with our three diversity focus areas: women in senior leadership; ethnic diversity in middle and senior leadership; and supporting colleagues with a disability.

We are pleased to say that at 31 December 2023 our overall workforce was 50% female, and in our senior management roles 40% were female. In addition, our Board was 56% female and our Executive Team was 29% female.

At 31 December 2023 our workforce was 19% ethnically diverse, including 7% Black, and our senior leaders were 10% ethnically diverse (in the UK) and 2% Black. In addition, our Board and our Executive Team were 22% and 14% ethnically diverse respectively.

In 2022 we were recognised as Disability Confident Employer (level 2) status across the Group and throughout 2023 continued to work with the Capita ability network to strengthen understanding as well as support our colleagues with a disability. We also increased our disability declaration level by 3%.



## I Responsible business ▶ Our people *continued*

### Reporting table on gender representation at Board and Executive Team level at 31 December 2023

Gender	Number of Board members	% of Board	Number of senior positions on the Board	Number in executive management	% of executive management
Male	4	44	3	5	71
Female	5	56	1	2	◇ 29
Other categories	0	0	0	0	0
Not specified/prefer not to disclose	0	0	0	0	0

### Reporting table on ethnicity representation at Board and Executive Team level at 31 December 2023

Ethnicity Group	Number of Board members	% of Board	Number of senior positions on the Board	Number in executive management	% of executive management
White British or other White (including minority white groups)	7	78	4	6	86
Mixed/multiple ethnic groups	0	0	0	0	0
Asian/Asian British	1	11	0	1	14
Black/African/Caribbean/Black British	1	11	0	0	0
Other ethnic group, including Arab	0	0	0	0	0
Not specified/prefer not to disclose	0	0	0	0	0

### Gender balance of senior management at 31 December 2023

Gender	Number	%
Male	61	59%
Female	41	◇ 40%
Not specified/prefer not to disclose	1	1%

### Gender balance of total workforce at 31 December 2023

Gender	Number	%
Male	21,637	49%
Female	22,129	50%
Other categories	10	0.1%
Not specified/prefer not to disclose	393	0.9%

At 31 December 2023 (being the reference date selected by the Board for the purposes of this disclosure), the Company complied, as detailed below, with the Financial Conduct Authority (FCA) regulatory targets, set out in Listing Rule 9.8.6R (9).

- The Board was 56% female (43% female at 6 March 2024, the date of this Annual Report, following Claire Miles and Janine Goodchild stepping down from the Board on 31 December 2023);
- The Senior Independent Director (Georgina Harvey) is female; and
- The Board had two Directors from a minority ethnic background.

Capita collects the data used for the purpose of making the gender and ethnicity representations from Board members, Senior Management and the Executive Team on a voluntary basis. The data for Senior Management and the Executive Team is extracted from the HR management system, Workday. The data for Board members is obtained via email from each member in which they are asked to declare which of the gender and ethnicity categories they are.

Capita defines Senior Board positions as: Chairman, Chief Executive Officer (CEO), Chief Financial Officer (CFO) and, Senior Independent Director (SID); and Senior Management, as those at CEO-2 within the Group plus subsidiary legal entity directors, as per requirements of the Companies Act section 414C(8)(c)(ii) and 414c(10)(b). The Executive Team is considered to be the Company's executive management as defined by the Listing Rules.

◇ KPMG, our independent assurance provider, has provided limited assurance over the selected information in this table denoted by the symbol (◇) using the assurance standard ISAE (UK) 3000. The assurance report as well as the reporting criteria and full methodology can be found in full on our website: <https://www.capita.com/about-capita/resources-and-reports>.

## I Responsible business ▶ Our people *continued*

### Supporting our colleagues' wellbeing

Focusing on the wellbeing, safety and health of all Capita employees has been a priority during 2023. Our mid-year pulse survey included eleven new wellbeing-related questions, providing valuable insight into how our colleagues are feeling and enabling teams to better support and care for our colleagues.

Our overall wellbeing index increased to 72% in 2023, 1% higher than in 2022.

Capita has continued to sustain health, safety and environment (HSE) metrics between 94% and 96% throughout 2023 and was recognised by the British Safety Council by being awarded the International Safety Award.

In 2023, we increased the intensity of our suicide awareness initiatives and became members of the National Suicide Prevention Alliance to demonstrate our commitment to continue to tackle this difficult subject.

We continued with our mandatory safeguarding training with 98% completion for level 1 and 99% for level 2, which exceeds our internal compliance targets of 95%. Our safeguarding framework is embedded within our divisions and Group functions. In 2023, 630 safeguarding reports were made with 234 needing further external referral support from local authorities or the emergency services.

Our SafetyNet initiative continues to provide much needed expert guidance to human resources representatives and line managers supporting colleagues with complex issues related to wellbeing, safeguarding or vulnerability.

As a multidisciplinary group, SafetyNet provides independent views and advice, recommends additional interventions, and supports managers and colleagues through extremely difficult situations. In 2023, SafetyNet supported 246 colleagues.

We also have employee assistance programmes or similar support services available to all colleagues globally, which provide access to counselling and online resources.

### Reimagining our workplaces

We continued to transform and simplify our property footprint with further consolidation during 2023, with 19 locations closed globally. We continue to create more flexible and better equipped space, providing our colleagues with improved technology to complement our ways of working. This allows us to come together, both face-to-face and virtually, to collaborate and to meet with clients and stakeholders.

We also recycle as much furniture and equipment as possible from the sites we closed, with more than 2,000 items being relocated internally. As part of our responsible business commitment, we also donated more than 1,300 items of furniture to charities, nurseries, schools and food banks.



# Supporting our communities



## Community investment

**c.£1.4m\***

(2022: c.£1m)

\* excluding £800,000 gifted as apprenticeship levy

## Tackling economic inequalities

Helping to support and grow strong communities in the current economic climate is important for Capita.

In 2023 we continued our partnership with Business in the Community (BiTC). Capita has been working with BiTC, the UK's largest and most influential responsible business network, since 2019.

In 2023 our then CEO, Jon Lewis, continued his work as Chair of the Employment and Skills Leadership team, which brings together senior leaders from across industry to build solutions to support access to and growth in employability and skills.

We also continued our work as part of the cross-industry cost-of-living taskforce, which brings together a group of senior executives to support those most disadvantaged and vulnerable in society.

In 2023, we gifted more than £800,000 of our apprenticeship levy to charities and SMEs to support their investment in skills development.

We continued to support our employees as they fundraised more than £227,000 and were pleased to donate more than £24,000 in matched charity funding.

In partnership with Hands On Payroll Giving, we were able to significantly increase our charitable impact. Our collaboration enables Capita employees to support their chosen charities and communities. In 2023 we raised almost £141,000 through payroll giving activities.

The majority of our employees globally are granted one day per year for volunteering activities, almost 21,000 hours of volunteering were recorded in 2023, nearly three times more than in 2022.

Capita supported Social Shifters Global Innovation project with 279 volunteers acting as judges and taking part in the 2023 programme. Social Shifters is a social innovation challenge designed to accelerate young (18 – 30 years) social innovators, to explore, start and grow their ideas to tackle the social or environmental issues that matter to them most. To enter the Social Shifters Global Innovation Challenge, young people must present an idea that is unique and contributes towards at least one of the United Nation's 17 Sustainable Development Goals.

We also entered a new partnership with South Nottingham College. The ability initiative aims to give 16 – 25 year olds with a disability or complex learning need an opportunity to enter paid employment and to support them with their future career choices. Following a successful work placement, three young people were offered and accepted permanent roles at Capita. We will continue this partnership in 2024.

Project Selborne sponsored an event at London Docklands where 30 young people aged between 9 and 14 tried out rowing, kayaking and sailing on the Thames. This was part of the Sea Cadets On The Water programme, which provides thousands of young East Londoners from low-income families with the chance to experience water sports, learn something new and earn qualifications. An additional focus was on increasing diversity and inclusion in the Sea Cadets and Royal Navy.

“Alzheimer’s Society would like to say a huge thank you to Capita for your donations, allowing us to provide help and hope to more people affected by dementia. Regular donations are so important to us and are the backbone of our work. Monthly income generated through Payroll Giving allows us to budget and plan for the future, as well as help those who need it right now. Sadly, dementia is the UK’s biggest killer with over 900,000 people currently living with it – and if we do nothing, 1 in 3 people born today will go on to develop dementia. That’s why we need supporters like you to help end the devastation of dementia”

**Charley O’Hara**  
Individual Giving Assistant,  
Alzheimer’s Society

I Responsible business ▶ Community continued

In 2023 we continued with our commitment to upholding the Armed Forces Covenant and creating a culture that honours and empowers those in the armed forces community. We developed a podcast series that shares powerful stories of resilience and dedication from veterans, reservists and military spouses and can be found on our website.

Our partnership with Meadow Well Connected was recognised at the annual North-East Charity Awards as we won the Corporate Charity Partnership award. Since becoming partners in 2018, we have supported a wide range of activities and services for Meadow Well Connected, which included donating 216 volunteering hours, providing Christmas lunches for more than 100 local people and installing around 4km of new pathways in the charity's gardens.

“Capita’s support really does mean so much to us. We absolutely love payroll giving here at Macmillan. By giving through your salary each pay day we are able to provide essential services for people with cancer throughout the UK from our Macmillan Support Line to our incredible Macmillan nurses. The fact that we know how often and how much you will donate each month means that we can plan ahead and spend your hard-earned money where we know it is needed most”

**Ollie Lashbrook**  
Senior Corporate Partnerships  
Operations Manager at Macmillan

The majority of our employees globally are granted one day per year for volunteering activities, almost 21,000 hours of volunteering were recorded in 2023, nearly three times the amount in 2022



Our partnership with Meadow Well Connected was recognised at the annual North-East Charity Awards as we won the Corporate Charity Partnership award. Since becoming partners in 2018, we have supported a wide range of activities



# Planet

## Fighting climate change

Capita has updated its target to become fully net zero to 2045. A significant amount of our carbon emissions originates from our supply chain, and we extended our target to achieve full net zero by ten years to allow us more time to engage with our suppliers and support them to reduce their environmental impact. We are working to validate our revised targets with the Science Based Target initiative (SBTi).

### Near-term targets

Capita has committed to reduce absolute Scope 1 and 2 greenhouse gases (GHG) emissions and absolute Scope 3 GHG emissions covering business travel by 46% by 2030 from a 2019 base year. Capita has also committed to 50% of its suppliers by spend – covering purchased goods and services, and capital goods – having science-based targets by 2025.

### Long-term targets

Capita has committed to reducing absolute Scope 1 and 2 GHG emissions, and absolute Scope 3 GHG emissions (covering purchased goods and services, capital goods, business travel and employee commuting) by 90% by 2045 from a 2019 base year.

We are committed to these challenging targets at every level of our organisation, setting decarbonisation as our overarching objective. Our goal is for all residual emissions from 2045 to be neutralised in line with SBTi criteria to reach net zero emissions.

Our three-phased approach aims to reach operational net zero by 2030; operational and business travel net zero by 2035; and full net zero by 2045.

Following our commitment to be net zero by 2045, the challenges we believe will be most difficult to address are: the decarbonisation of our heating systems; and collecting, monitoring and managing the reduction of emissions from nearly 18,000 suppliers.

### Driving down GHG emissions

As a result of our virtual-first meeting strategy and hybrid working culture we continue to manage business travel emissions, standing at only 22% of pre pandemic levels in the current reporting year. Our electricity emissions also reduced, through efficiency, sourcing more renewable power and reducing the property portfolio.

The net zero property refit plan continued in 2023 with upgrades to heating and cooling systems, controls, lighting and building fabric. We plan to pilot heat pump technology in selected properties over the next few years to begin migration from fossil-fuelled heating systems and are in the process of identifying and agreeing suitable locations.

Our highly successful building energy monitoring programme continues to identify energy savings. Our Facilities Management team review half hourly energy data for our larger properties quarterly, leading to efficiency action and plant and controls upgrades. We also use this process to monitor the success of plant replacement programmes and refurbishments, checking that expected energy efficiency and emissions reduction are achieved.

Engagement with our top 265 suppliers through the Carbon Disclosure Project supply chain membership gives us access to supplier climate risk and compliance data and CO<sub>2</sub> equivalent (CO<sub>2</sub>e) emissions target and policy data, as well as opportunities to identify impact reduction initiatives. These insights help us transition from spend-based calculation to actual CO<sub>2</sub>e data to decouple emissions from spend.

In addition to our emissions savings achieved through plant replacement in 2023, we have also installed 34 electric vehicle chargers across seven locations, and have further installs planned for 2024 to support electric vehicle users. Energy Savings Opportunity Scheme (ESOS) surveys carried out in 2023 have identified a number of further initiatives which we are now exploring to drive further energy reductions. Post pandemic travel emissions have increased, but remained significantly below our short-term SBTi target for 2030. We have set a revised 2045 net zero target to augment our short term 1.5 degrees C science-based targets for greenhouse gas reduction. This target covers our full value chain and we are working to have it verified with SBTi. In 2023 functions and divisions set net zero targets, linked to incentive plans to drive progress against our net zero milestones and plan. Capita maintained CDP 'A' list in 2023.

We have already achieved our 2025 and 2030 near-term science-based targets except for Scope 1 which we expect to achieve by the end of 2024.

With more than 43,000 colleagues across the globe, we are all too aware of our own internal responsibilities. We therefore launched a new environmental standard, setting out Capita's environmental commitments and responsibilities and incorporating an environmental training module for all employees to support the environmental standard and net zero commitment.

In 2023 we published our fourth disclosure statement against the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD), see pages 50 to 56.

## I Responsible business ▶ Planet continued

### GHG emissions (tCO<sub>2</sub>e) and energy use (kWh) for period 1 January 2023 to 31 December 2023

	Data source	Current reporting year 2023			Comparison reporting year 2022			Comparison reporting year 2021		
		UK and offshore	Global excluding UK and offshore	Total	UK and offshore	Global excluding UK and offshore	Total	UK and offshore	Global excluding UK and offshore	Total
<b>Energy used to calculate emissions (kWh)</b>										
Gas and fuel	Energy Bureau, UK est energy, FSC burn, int. est energy, Capita Europe	58,451,965	1,276,761	<b>59,728,726</b>	58,561,431	2,443,394	61,004,825	65,139,586	1,726,618	66,866,204
Electricity and district heat		61,520,201	15,030,765	<b>76,550,966</b>	65,813,485	15,405,065	81,218,550	93,211,777	26,513,142	119,724,918
Business travel – cars	SAP expenses	7,208,314	2,276,310	<b>9,484,624</b>	12,211,032	3,836,579	16,047,610	12,502,976	2,271,999	14,774,974
Total energy used		127,180,480	18,583,836	<b>145,764,316</b>	136,585,947	21,685,038	158,270,986	170,854,338	30,511,758	201,366,097
% of total energy used		87%	13%	<b>100%</b>	86%	14%	100%	85%	15%	100%
Emissions from combustion of gas and fuel for heating tCO <sub>2</sub> e (Scope 1)	Energy Bureau, Capita Europe	10,373	246	<b>10,619</b>	9,281	405	9,686	11,620	320	11,941
Emissions from combustion of fuel in company vehicles tCO <sub>2</sub> e (Scope 1)	Fleet, FSC, fleet Germany, India, South Africa	1,224	63	<b>1,287</b>	1,851	67	1,918	1,845	71	1,916
Emissions from fugitive refrigerant gas tCO <sub>2</sub> e (Scope 1)	Fugitive refrigerant gas	339	2	<b>341</b>	445	0	445	1,466	0	1,466
Emissions from purchased district heat tCO <sub>2</sub> e (Scope 2)	Energy Bureau, Capita Europe	30	68	<b>98</b>	34	264	298	40	157	198
Emissions from purchased electricity (location based) tCO <sub>2</sub> e (Scope 2)	Energy Bureau, UK est energy, int. est energy, Capita Europe, South Africa, India	12,553	8,714	<b>21,267</b>	12,827	8,012	20,839	23,891	6,853	30,744
Emissions from purchased electricity (market based) tCO <sub>2</sub> e (Scope 2)	Energy Bureau	1,044	2,411	<b>3,455</b>	2,247	1,836	4,083	10,328	8,132	18,460
Emissions from business mileage, air, rail, tube tram and light rail, taxi, bus, coach, ferry, hotel, waste tCO <sub>2</sub> e (Scope 3)	SAP, Agiito	5,475	1,369	<b>6,844</b>	4,857	1,244	6,101	3,860	640	4,500
Total gross tCO <sub>2</sub> e Scope 1 and Scope 2 (location based)		24,519	9,091	<b>33,611</b>	24,438	8,748	33,186	38,863	7,401	46,264
Total gross tCO <sub>2</sub> e emissions (location based)		29,995	10,460	<b>40,455</b>	29,294	9,992	39,287	42,722	8,042	50,763.93
Total gross tCO <sub>2</sub> e emissions (market based)		18,486	4,158	<b>22,644</b>	18,680	3,552	22,233	29,119	9,163	38,282.35
Intensity ratio: gross Scope 1 and 2 tCO <sub>2</sub> e (location based) per £1m turnover		8.1	3.0	<b>11.2</b>	8.1	2.9	11.0	10.0	2.3	12.3
Intensity ratio: gross Scope 1 and 2 tCO <sub>2</sub> e (location based) per headcount		0.56	0.21	<b>0.77</b>	0.77	0.48	0.66	0.91	0.39	0.73

**Methodology:** Carbon emissions have been calculated following the GHG protocol using the operational control approach. Estimated energy figures have been used for buildings where direct meter data is not available, using Cibse guide F benchmarks (or previous years' consumption outside UK if available). Any fuel figures provided in litres have been converted into kWh or tCO<sub>2</sub>e using Gov.UK and Defra conversion tables. Mileage provided has been converted into tCO<sub>2</sub>e using Defra conversions for the relevant engine size and fuel type. kWh figures for air, rail, taxi and other public transport have been omitted as not practical to convert from passenger km or passenger fares but CO<sub>2</sub>e emissions have been calculated using Defra conversion factors.

**Scope 1, Scope 2 and Scope 3** business travel are verified to ISAE 3000 by SLR Consulting in each year.

## I Responsible business ▶ Planet *continued*

### Energy efficiency action 2023

We invested in energy-efficiency measures across our estate in 2023 to deliver savings below.

Building plant upgrades and initiatives	(tCO <sub>2</sub> e reduction per annum)
Replacement LED lighting	89.7
Replacement chillers and air conditioning units	158.7
Replacement heating plant	65.8
Updated building management controls	2.8
Installation of sub-metering	139.7
<b>Total</b>	<b>456.7</b>

In addition to our emissions savings achieved through plant replacement in 2023, we have also installed 34 electric vehicle chargers across seven locations, and have further installations planned for 2024 to support electric vehicle users. Energy Savings Opportunity Scheme (ESOS) surveys carried out in 2023 have identified a number of further initiatives which we are now exploring to drive further energy reductions. Post-pandemic travel emissions have increased, but remained significantly below our short-term SBTi target for 2030. We have set a revised 2045 net zero target to augment our short term 1.5 degrees C science-based targets for greenhouse gas reduction. This target covers our full value chain and we are working to have it verified with SBTi. In 2023 functions and divisions set net zero targets, linked to incentive plans to drive progress against our net zero milestones and plan. Capita maintained CDP 'A' list in 2023.

### Net zero milestones

We are working to reach operational net zero by 2030 (Scopes 1 and 2); operational and business travel net zero by 2035 (Scopes 1 and 2, Scope 3 business travel); and full net zero by 2045, including our supply chain.

### Methodology

We measure our environmental performance by reporting our global carbon footprint annually in terms of tonnes CO<sub>2</sub> equivalent (tCO<sub>2</sub>e), an absolute measure, tonnes CO<sub>2</sub> equivalent per £1m revenue and per person (intensity measures). The data relates to Capita's owned and leased facilities and business travel under its operational control across all geographies. We report separately on our direct emissions from Capita-controlled and owned sources (Scope 1), indirect emissions from consumption of electricity, heat or steam (Scope 2), and emissions from third parties (Scope 3). This ensures our compliance with Part 7 of The Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 which requires certain disclosures in respect of GHG emissions (the Strategic Report GHG Emission disclosures).

We engaged an external agency, SLR Consulting Ltd, to provide independent limited assurance over the selected GHG emissions data (highlighted in the table opposite with an \*) using the assurance standards ISAE 3000 and 3410. SLR Consulting Ltd has issued an unqualified opinion over the selected data; its full assurance statement is available at [www.capita.com/responsible-business/resources-and-reports](http://www.capita.com/responsible-business/resources-and-reports).

Our disclosures cover sources of our GHG emissions from our operations in the UK, Ireland, Central Europe (Germany, Switzerland, Poland and Bulgaria), India and South Africa. Capita converts the consumption data into a carbon footprint with consideration for the World Business Council for Sustainable Development and World Resources Institute's Greenhouse Gas Protocol, together with the latest emissions factors from the UK Department for Environment, Food and Rural Affairs, Association of Issuing Bodies and International Energy Agency.

### Annual GHG emissions

	2023	2022	2021	2020
Scope 1 (tCO <sub>2</sub> e)	<b>12,247*</b>	12,049*	15,021*	18,980*
Scope 2 (tCO <sub>2</sub> e) (location-based)	<b>21,365*</b>	21,137*	24,088*	28,359*
Scope 2 (tCO <sub>2</sub> e) (market-based)	<b>3,553*</b>	4,083*	10,328*	23,526*
Scope 3 (tCO <sub>2</sub> e) (business travel and waste)	<b>6,844*</b>	6,101*	4,500*	7,881*
Total gross tonnes of CO <sub>2</sub> e (location-based)	<b>40,456</b>	39,287	43,609	55,220
Total gross tonnes of CO <sub>2</sub> e (market-based)	<b>22,644</b>	22,233	29,848	50,387
<b>Total gross tonnes of CO<sub>2</sub>e/£1m revenue (location-based)</b>	<b>13.5</b>	<b>13.03</b>	<b>13.70</b>	<b>16.60</b>
<b>Total gross tonnes of CO<sub>2</sub>e/headcount (location-based)</b>	<b>0.92</b>	<b>0.79</b>	<b>0.73</b>	<b>0.85</b>

### Table of progress against SBTi verified short-term targets

	2023 actual	2023 target	2030 target
Scope 1 (tCO <sub>2</sub> e)	<b>12,247</b>	15,775	10,201
Scope 2 (tCO <sub>2</sub> e) (market-based)	<b>3,553</b>	23,006	14,876
Scope 3 (tCO <sub>2</sub> e) (business travel and waste)	<b>6,844</b>	25,578	16,540
<b>Progress against SBTi verified short-term engagement target</b>	2023 actual	2023 target	2025 target
Scope 3 supply chain spend covered by science-based targets %	<b>54%</b>	33%	50%
<b>Other metrics</b>	<b>2023</b>	2022	2021
100% renewable power progress (as % of total power)	<b>90%</b>	85%	80%
Transition from internal combustion to low emission vehicles:			
Diesel	<b>43%</b>	47%	62%
Hybrid electric	<b>52%</b>	48%	32%
Pure electric	<b>4%</b>	4%	5%
Average CO <sub>2</sub> e	<b>96g/km</b>	96g/km	96g/km
Fleet vehicle energy source			

#### Notes:

Total gross tonnes of CO<sub>2</sub>e/£1m revenue (location-based) in 2023, 2022 and 2021 has been calculated using statutory revenue.

**Scope 1:** emissions from Capita sources that are controlled by us, including the combustion of fuel, company-owned vehicles and the operation of our facilities.

**Scope 2:** emissions from the consumption of purchased electricity, heat or steam.

**Scope 3:** emissions from non-owned sources related to Capita's activities, including business travel and waste.

#### Milestone 1

Emissions data above covered by limited external assurance to ISAE 3000

# Ensuring we align with our purpose

In 2023, we maintained our focus on responsible operations by: continuing to support clients and communities; engaging and working closely with our suppliers; understanding our colleagues' needs; and dealing with wider societal challenges, such as the cost-of-living crisis.

## cNPS score for 2023

# +16

## Spend with c.18,000 direct suppliers in 2023<sup>1,2</sup>

# £1.83bn

In

# 77

countries

1. Excludes intercompany spend.

2. Data includes Smart DCC (DCC) spend (£0.6bn) as under the terms of the licence Capita administers DCC's accounts payable function. Under the terms of the licence Capita does not control the DCC legal entity and therefore this spend is not consolidated into the consolidated financial results.

## Client relations

We actively seek the views of our clients through an annual customer net promoter score (cNPS) survey. In the survey we ask for feedback on our current performance, key drivers and encourage comments on areas that they would like us to focus on in future. We feed this information back to our teams who then take the time to understand any root causes of issues raised and set actions which are monitored via our customer relationship management platform, Salesforce.

In 2023, Public Service and Experience received feedback from 384 individuals across 234 clients – a 51% response rate. The results give Capita a cNPS score of +16 for 2023, continuing the positive cNPS feedback within both divisions.

## Supplier engagement

Almost 92% of our total supply chain are small and medium-sized enterprises (SMEs), including sole traders and micro-businesses. We continued to recognise the effect that the current economic situation is having on many of these suppliers, with both high inflation and the cost-of-living crisis in the UK. We endeavour to ensure payment to agreed terms with our vendors and seek to make payments to small suppliers more quickly in accordance with the Prompt Payment Code.

As signatories to the Prompt Payment Code, we report our payment practices and performance to the UK Government every six months; 99% of our suppliers were paid within 60 days. 92% of SMEs were paid within 30 days.

We value the business relationships we have with our suppliers and seek to build lasting relationships, treating our suppliers and partners fairly and paying promptly. We want to work with suppliers who share our values and support us in delivering our purpose.

Our supplier charter, which is available on our website, remains at the core of strengthening our commitments and sets out how we conduct business in an open, honest and transparent manner, and what we expect of our suppliers. This year, it was refreshed and relaunched. It applies to all new and renewing suppliers. As a minimum, we expect our suppliers to comply with all applicable laws and regulations. This includes the provision of safe working conditions, treating workers with dignity and respect, acting ethically and being environmentally responsible. Our aim is to work together to achieve the highest standards in our supply chain, while achieving wider social, economic and environmental benefits aligned to the Social Value Act.

To mitigate ESG risk within our supply chain, 40% of suppliers by spend are monitored through EcoVadis scorecards and there is a plan to expand this monitoring more widely across our supply chain. Less than 5% of spend is incurred in countries deemed to be high risk as per the Global Slavery Index ([www.walkfree.org](http://www.walkfree.org)). All suppliers are subject to Capita's supplier risk management framework to identify and mitigate risk.

To support our net zero goals, the ESG Committee approved the strategy to decarbonise our Scope 3 Supply Chain Emissions and to have 2023 business aligned objectives for suppliers to have science-based targets in place.

To understand Capita's Scope 3 carbon footprint, a supplier engagement programme was also undertaken with suppliers accounting for £1bn annual spend (over 50% of the supply chain by spend) to ask them to disclose their carbon emissions to CDP.

Our 2025 goals are that 55% of our suppliers by spend will have committed to having science-based targets (SBTs) in place and, by 2030, 85% of our suppliers by spend will have committed to having SBTs in place. By 31 December 2023, 54% of our suppliers by spend had committed to having SBTs in place.

## I Responsible business ▶ Operating responsibly *continued*

### Targeting bribery and corruption

We do not tolerate bribery or corruption in any form. Our anti-bribery and corruption set of policies apply to all Capita businesses, employees and suppliers. The Risk & Compliance team monitors compliance, with a view to ensuring all parts of the business are aware of their responsibilities in terms of charitable donations, sponsorships, facilitation payments, gifts and hospitality. All employees must complete financial crime training annually.

### Upholding human rights

We are committed to playing our role in society by ensuring that we have the systems, policies and processes in place to identify any potential instances of exploitation and, if found, eradicate modern slavery in all its forms from our business and supply chain.

Our updated human rights policy details our commitments to upholding the principles of human rights, as set out in the UN Declaration of Human Rights and the International Labour Organization core labour principles. We comply with all relevant legislation, including the UK Modern Slavery Act and our compliance statement can be found on our website. We outline expectations and compliance to the standards we set out for suppliers, working with them to ensure they operate in accordance with this policy, and upholding the principles of human rights in their operations and supply chains.

✚ For more information on our anti-bribery, corruption and human rights policies, see page 49

We are taking appropriate steps to ensure that everyone who works for Capita benefits from a working environment in which their fundamental human rights are respected and anyone that we do business with also upholds these principles. If any client, employee, supplier or other stakeholder becomes aware of any potential breach of human rights (or any other ethical concern) they may report this confidentially to our Speak Up hotline. This hotline is externally managed for independence and confidentiality and made available across multiple channels.

### Protecting privacy

Our clients and our colleagues expect us to keep their data safe and secure, and to respect their privacy. We take this responsibility very seriously, with a view to ensuring we only process personal data in line with all applicable laws, including how we collect, store, use, retain, transfer and delete personal data.

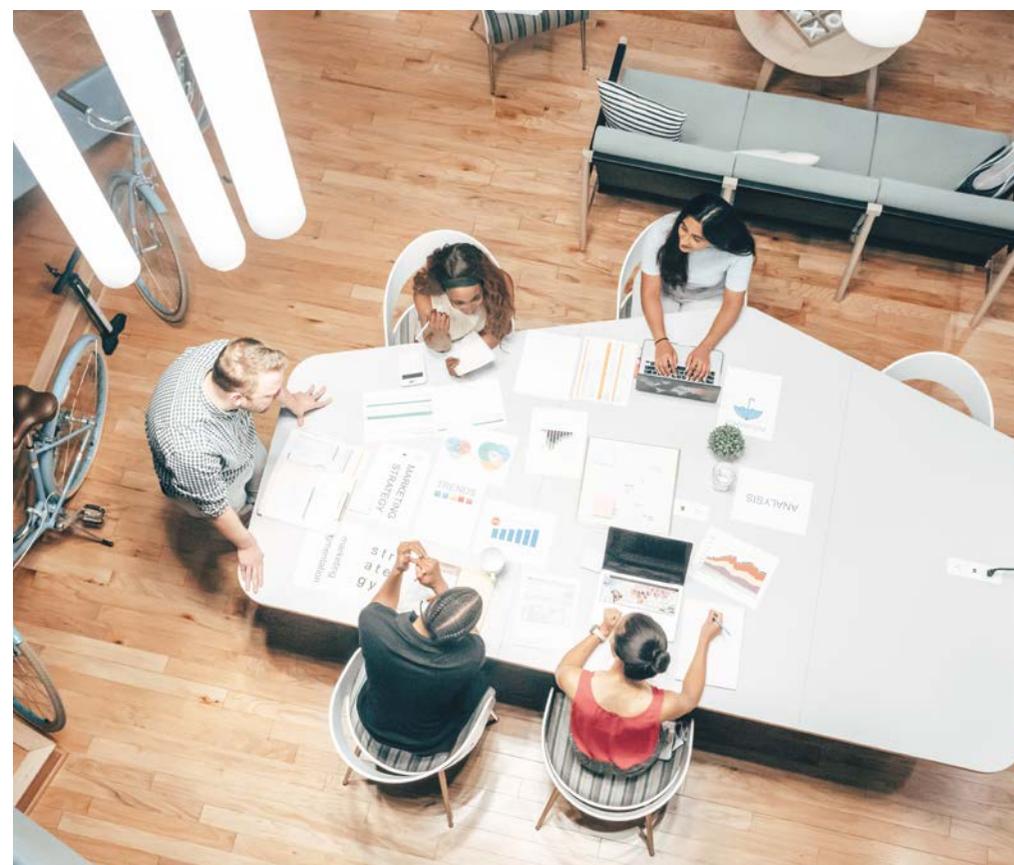
Our privacy policy details how we expect everyone to take responsibility for privacy, including the protection of data, applying our privacy standards, procedures and guidance in their areas of the business. These requirements include maintaining information asset registers, following a comprehensive incident management process, ensuring privacy by design, and data protection impact assessments.

We continue to improve our privacy and data management practices, and we recently appointed a Chief Data Officer to work alongside our Group Data Protection Officer. During 2023 we also launched new mandatory privacy training for our colleagues and continued to raise awareness of the importance of privacy through tailored training initiatives and ongoing communication programmes.

### Privacy training

# c.29,000

privacy training modules completed



# Engaging with our stakeholders



## Section 172 statement

Capita's Directors are fully aware of and understand their statutory duties under Section 172 of the Companies Act 2006 (the Act). The Board has a clear framework for determining the matters within its remit and has approved Terms of Reference for the matters delegated to its Committees. When making decisions, each Director ensures that they act in the way they consider, in good faith, would most likely promote the Company's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to section 172(1)(a) to (f) as detailed below.

- 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 members of the Company.

This section 172 statement forms the directors' statement required under section 414CZA of the Act and describes how the Directors have taken into account wider stakeholders in their decision making and also the principal decisions taken during the year.

## Our people

### Why they are important

They deliver our business strategy; they support the organisation to build a values-based culture; and they deliver our products and services ensuring client satisfaction.

### What matters to them

Flexible working; learning and development opportunities leading to career progression; fair pay and benefits as a reward for performance; and two-way communication and feedback.

### How we engaged

- People surveys
- Regular all-employee communication
- Employee director on the Capita plc Board
- Employee focus groups and network groups
- Workforce engagement on remuneration
- Regular 'breakfast' sessions with the Executive Team for our colleagues

### Topics of engagement

- Creating an inclusive workplace
- Health and wellbeing
- Speak Up policy
- Directors' remuneration
- Acting on survey feedback
- The career path framework
- The redundancy consultation programme announced in November 2023

### Outcomes and actions

The 2023 employee survey showed key indices had either improved or remained steady with a five-point increase in the eNPS compared with 2022. 63% of colleagues who responded felt proud to work at Capita. We are developing and delivering a range of action plans, including ensuring our leaders feel confidence in, and ownership of Capita's strategy, plans and successes, developing inclusive opportunities for internal career mobility.

In December 2023, the Board agreed that while the appointment of employee directors had been successful, it was appropriate for the Board to consider a wider level of engagement with colleagues, including site visits arranged for individual directors to meet with local management and colleagues at Capita's businesses. In addition, the Board has appointed Nneka Abulokwe as the designated non-executive director to engage with colleagues. Adolfo Hernandez, our new CEO, has also commenced a series of breakfast sessions to meet with colleagues of differing seniority and at different locations throughout the Group. Janine Goodchild stepped down from the Board as an employee director on 31 December 2023.

The UK real living wage increase was applied from 1 April 2023. At the end of 2023, we took the difficult decision to withdraw from the UK's real living wage. Since 2020, the Group has increased the salaries of our lowest earners by 22% and the 2024 real living wage increase of 10.1% was not something we could

commit to given the need for Capita to remain cost competitive and reflecting the fact that this is not a cost we are able to pass on to clients.

The global career path framework which defines career levels, career job content, and reward framework within Capita was rolled out during the year.

In October 2023, Capita was recognised by Forbes, as being one of the top companies for women, ranking at number 18 out of 400 global companies on their list.

We continued to promote our Speak Up policy throughout the organisation.

### Risks to stakeholder relationship

- Our ability to recruit due to the national and global labour market demand for resources
- Our ability to retain and develop people, impacting our quality of service and our financial performance
- Our ability to evolve our culture and practices in line with our responsible business agenda

### Key metrics

Voluntary attrition, eNPS, employee engagement index and people survey completion level.

### Further details

Responsible business section on pages 32 to 37. Directors' remuneration report on page 96.

## I Responsible business ▶ Engaging with our stakeholders *continued*

### Clients and customers

#### Why they are important

They are recipients of Capita's services; and Capita's reputation depends on consistent and timely delivery of the services they need from us.

#### What matters to them

High-quality service delivery; delivery of transformation projects within agreed timeframes; and responsible and sustainable business credentials.

#### How we engaged

- Client meetings and surveys
- Regular meetings with government stakeholders and annual review with the Cabinet Office
- Through our customer advisory boards
- Through our senior client partner programme which provides an experienced single point of contact for key clients and customers
- Introductory meetings and correspondence with the new CEO and new CEO, Public Service

#### Topics of engagement

- Current service delivery
- Transition and mobilisation of services
- Capita's digital transformation capabilities
- Possible future services
- Co-creation of client value propositions
- The cyber incident
- Ongoing benefits of hybrid working on client services

#### Outcomes and actions

Feedback provided to business units to address any issues raised; client value proposition teams supporting divisions with co-creation ideas; direct customer and sector feedback; and senior client partner programme undertaking client-focused growth sprints to build understanding of client issues and ideas to help address them.

#### Risks to stakeholder relationship

- Loss of business by not providing the services that our clients and customers want
- Damage to reputation by not delivering to the requirements of our clients and customers
- Loss of customers for our clients

#### Key metrics

Customer NPS; specific feedback on client engagements.

#### Further details

Chief Executive Officer's review on pages 8 to 12.  
Responsible business section on pages 30, 43 and 44.

### Suppliers and partners

#### Why they are important

They share our values and help us deliver our purpose; maintain high standards in our supply chain; and achieve social, economic and environmental benefits aligned to the Social Value Act. Our suppliers and partners provide additional expertise, skill and technology, elevating our offering.

#### What matters to them

Payments made within agreed payment terms; clear and fair procurement process; building lasting commercial relationships; and working inclusively with all types of business.

#### How we engaged

- Supplier meetings throughout source to procure process
- Regular reviews with suppliers
- Supplier questionnaires and risk assessments

#### Topics of engagement

- New digital offerings for clients
- Supplier payments
- Sourcing requirements
- Supplier performance
- Science based targets (SBTs)
- Supplier charter
- The cyber incident

#### Outcomes and actions

Our supplier charter, which is available on our website, remains at the core of strengthening our commitments and sets out how we conduct business in an open, honest and transparent manner, and what we expect of our suppliers. This year, it was refreshed and relaunched.

To understand Capita's Scope 3 carbon footprint, a supplier engagement programme was also undertaken with suppliers accounting for £1bn annual spend (over 50% of the supply chain by spend) to ask them to disclose their carbon emissions to CDP.

During 2023, 99% of our suppliers were paid within 60 days.

#### Risks to stakeholder relationship

- Environmental issues
- Commitment to tackling SBTs
- Supply chain resilience

#### Key metrics

99% of supplier payments within agreed terms; SME spend allocation; and supplier diversity profile.

#### Further details

Supplier engagement section on page 43.

## I Responsible business ▶ Engaging with our stakeholders *continued*



### Investors

#### Why they are important

They own the business and provide essential capital; and their input and feedback is considered when making tactical and strategic decisions.

#### What matters to them

Reporting on strategic, operational and ESG factors; financial performance; directors' remuneration, access to the Board and senior management; and regular communication.

#### How we engaged

- Financial and other reports and trading updates
- Investor meetings with CEO, CFO and Investor Relations
- Dedicated webinar for retail shareholders
- Regular investor programme with the Board, including meetings with the Chairman and Remuneration Committee chair and feedback throughout the year
- At the Company's AGM
- Discussions around AGM on resolutions and governance topics
- Dedicated Investor Relations contacts and email inbox

#### Topics of engagement

- Disposal programme
- Medium-term targets and outlook
- Social: attrition and engagement
- Balance sheet and liquidity
- Appointment of the new CEO
- Governance: remuneration and remuneration policy proposed for shareholder approval in 2024
- The cyber incident
- Environmental: net zero target

#### Outcomes and actions

Frequent market communication; and active engagement with largest shareholders including with the Chairman and Remuneration Committee chair, including shareholder consultation on the remuneration policy to be proposed to shareholders at the 2024 AGM.

#### Risks to stakeholder relationship

- Delivery of strategic and financial objectives
- Key aspects of governance eg remuneration

#### Key metrics

Revenue; profit; free cash flow; net debt and gearing; valuation; and AGM voting.

#### Further details

Principal decisions table on page 48.



### Society

#### Why it is important

Capita is a provider of key services to government impacting a large proportion of the population.

#### What matters to it

Social mobility; youth skills and jobs; digital inclusion; diversity and inclusion; climate change; business ethics; accreditations and benchmarking; and cost of living crisis.

#### How we engaged

- Membership of non-governmental organisations
- Charitable and community partnerships
- External accreditations and benchmarking
- Working with clients, suppliers, and the Cabinet Office

#### Topics of engagement

- Youth employment
- Workplace inequalities
- Diversity & inclusion
- Climate change

#### Outcomes and actions

Youth and employability programme such as Social Shifters; ranked 18 on the Forbes Global list of top employers for women; a 5% reduction in our gender pay gap (compared with 2022); awarded Employer's Network for Equality and Inclusion; achieved a silver Tidemark and an A CDP (Carbon Disclosure Project) score as well as a silver medal by EcoVadis for Capita plc.

#### Risks to stakeholder relationship

- Lack of understanding of the issues important to them
- Insufficient communication or involvement in shaping and influencing strategies and plans

#### Key metrics

Community investment, workforce diversity and ethnicity data, including pay gaps.

#### Further details

Responsible business: Planet section on pages 40 to 42.

Responsible business: Community section on pages 38 to 39.

## I Responsible business ▶ Engaging with our stakeholders *continued*

### Principal decisions: consideration of stakeholders and outcomes

Examples of some of the principal decisions that the Board has taken during 2023 and how s172 considerations have been factored into the Board's decision making are set out below:

Principal decisions considered by the Board	Impact on long-term sustainable success	Stakeholder considerations	Further details
<p><b>Finance:</b></p> <ul style="list-style-type: none"> <li>In June 2023, the Board approved the extension of the revolving credit facility (RCF) to 1 December 2026 at £284m, reducing to £250m by 1 January 2025 due to specified transactions.</li> <li>In July 2023, the Board approved the issuance of £101.9m equivalent of new US private placement loan notes.</li> <li>In H2 2023, the Company settled £30.3m of Euro private placement loan notes which were originally due in 2027.</li> <li>During 2023, the Board approved the remaining disposals of the companies within the Portfolio division.</li> </ul>	<p>The RCF extension and private placement loan note issuance demonstrates debt providers' confidence in Capita and has enabled us to extend the average maturity of our debt funding. Together with the receipt of additional funds from the disposal of businesses within the Portfolio division these actions significantly extended the Group's funding maturity profile.</p>	<p><b>All our stakeholders:</b> the strengthening of the Group's funding position has made Capita a more sustainable business which is in the interests of all stakeholders.</p>	<p>Chief Executive Officer's review on pages 8 to 12.</p> <p>Chief Financial Officer's report on pages 22 to 28.</p>
<p><b>Governance – Board changes:</b></p> <p>Approving the appointment of Adolfo Hernandez as Chief Executive Officer.</p>	<p>The chief executive officer is a critical role in implementing and delivering the strategy approved by the Board and ensuring that the Company upholds its values and purpose.</p>	<p><b>All our stakeholders:</b> all our stakeholders have an interest in the successful delivery of our strategy and the way it is delivered. Adolfo Hernandez, CEO has a critical role in ensuring that our strategy is delivered in line with our purpose and values.</p>	<p>Nomination Committee report on pages 79 to 83.</p>
<p><b>Significant cost reduction programme:</b> on 21 November 2023, the Company announced that, following an extensive organisational review, the Group would be commencing employee consultations programmes which are expected to deliver cost savings of £60m on an annualised basis from Q1 2024.</p>	<p>The organisational changes principally impacted indirect support function and overhead roles. The changes were proposed to ensure Capita's business is more efficient and sustainable for the longer-term.</p>	<p><b>Colleagues:</b> the Board recognised the impact on colleagues whose roles were at risk of redundancy. A consultation process was undertaken, and support offered to affected colleagues.</p> <p><b>All our stakeholders:</b> the proposed efficiency savings will increase the Group's operating margins, maintain our competitiveness and contribute to a more sustainable future for Capita, in the long-term interests of the Company and its stakeholders as a whole.</p>	<p>Chief Executive Officer's review on page 9.</p> <p>Chief Financial Officer's report on pages 22 to 28.</p>
<p><b>Cyber incident:</b> on 31 March 2023 Capita experienced a cyber incident. Following forensic work it was confirmed that some data was exfiltrated. Following this incident, it was agreed to accelerate the Company's previously planned investment to improve Capita's cyber security maturity.</p>	<p>It is intended that our maturity level will be audited with reference to the National Institute of Standards and Technology cyber security framework on an annual basis by a third party.</p> <p>The acceleration of the investment and the expected improvement in Capita's cyber security maturity will help underpin Capita's long-term success.</p>	<p><b>All our stakeholders:</b> the accelerated improvement in Capita's cyber security maturity and the annual audit will be of benefit to all stakeholders.</p>	<p>Chairman's statement on page 7.</p> <p>Chief Executive Officer's review on page 10.</p>
<p><b>Capital allocation policy:</b> during the year the Board considered its capital allocation policy.</p>	<p>The Board agreed to maintain a prudent approach to Capita's capital structure, with a medium-term target of net financial debt to EBITDA at or below 1x. The Board expects to achieve sustainable positive free cash flow generation over the medium term.</p>	<p><b>Shareholders:</b> the Board is mindful that shareholders have not yet seen improved returns and financial benefit (including shareholder distributions) from the strengthened Group.</p> <p><b>All our stakeholders:</b> the Board ensures that its capital allocation policy is appropriate for the Company's financial position.</p>	<p>Chief Financial Officer's review on page 27.</p>

## I Responsible business ▶ NFSIS

# NFSIS

This section of the report constitutes Capita's non-financial and sustainability information statement (NFSIS), produced to comply with sections 414CA and 414CB of the Companies Act 2006. The table below, and information it refers to, is intended to help stakeholders understand our position on key non-financial and sustainability matters. This builds on reporting that we do under the following frameworks: CDP, Dow Jones Sustainability Index and the EcoVadis Assessment.

Reporting requirement	Policies and standards which govern our approach	Where is this referenced in this report?
<b>Environmental matters</b>	<ul style="list-style-type: none"> <li>Health, safety and environmental policy (E)</li> <li>Environmental standard (I)</li> <li>Supplier Charter (E)</li> <li>Procurement policy (E)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible business: fighting climate change pages 40 to 42</li> <li>Task Force on Climate-related Financial Disclosures (TCFD), pages 50 to 56</li> <li>Streamlined Energy and Carbon Reporting Regulation (SECR), page 41</li> <li>Responsible business: operating responsibly – supplier engagement page 43</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>Code of conduct (E)</li> <li>Health, safety and environmental policy (E)</li> <li>Health, safety and environmental standard (I)</li> <li>Diversity and inclusion policy (E)</li> </ul>	<ul style="list-style-type: none"> <li>Our people section pages 32 to 37</li> <li>Responsible business: building an inclusive workplace pages 35 and 36</li> <li>Responsible business: diversity data page 36</li> </ul>
<b>Human rights</b>	<ul style="list-style-type: none"> <li>Human rights policy (E)</li> <li>Supplier charter (E)</li> <li>Modern slavery statement (E)</li> <li>Information and cyber security policy (E)</li> <li>Privacy policy (E)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible business: operating responsibly – supplier engagement page 43</li> <li>Responsible business: community – tackling economic inequalities pages 38 and 39</li> <li>Responsible business: operating responsibly – upholding human rights page 44</li> </ul>
<b>Social matters</b>	<ul style="list-style-type: none"> <li>Community and charity policy (E)</li> <li>Community and charity standard (I)</li> <li>Volunteering FAQ (I)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible business: community pages 38 and 39</li> </ul>
<b>Anti-corruption and anti-bribery</b>	<ul style="list-style-type: none"> <li>Code of Conduct: Anti-bribery and corruption policy (E)</li> <li>Gifts and hospitality standard (E)</li> <li>Financial crime policy (E)</li> <li>Conflict of interest policy (E)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible business: targeting bribery and corruption page 44</li> </ul>
<b>Due diligence and outcome</b>	<ul style="list-style-type: none"> <li>Risk management framework</li> <li>Annual internal audit plan</li> <li>Risk register</li> <li>Audit and Risk Committee report</li> </ul>	<ul style="list-style-type: none"> <li>Risk management framework pages 57 and 58</li> <li>Audit and Risk Committee report pages 87 to 95</li> </ul>
<b>Business model</b>		<ul style="list-style-type: none"> <li>Business model page 4</li> </ul>
<b>Non-financial KPIs</b>		<ul style="list-style-type: none"> <li>Non-financial KPIs page 30</li> <li>Responsible business pages 29 to 56</li> </ul>
<b>Risk management</b>		<ul style="list-style-type: none"> <li>Risk management and internal control pages 57 to 63</li> </ul>

I – Group policies, guidance and standards published internally; E – Group policies, statement and reports published externally.

# TCFD

## TCFD statement of compliance

Capita has made disclosures in accordance with the FCA Policy Statement 20/17 and listing rule LR 9.8.6R(8), and the UK Companies Act requirement for large companies to include climate-related financial disclosures.

This section of the Annual Report reports core information responding to the disclosure elements outlined by the TCFD recommendations and supporting guidance. Supplementary information for those interested in understanding more about our climate impact assessment in more detail can be found on our climate change hub webpage, and pages 49 to 53 of the 2022 Annual Report.

Our disclosure is consistent with the TCFD recommendations, with the exception of the following areas where we are working towards full disclosure.

1. **Strategy B – financial and strategic planning:** over the past few years Capita has completed qualitative and quantitative climate scenario analysis, and integrated climate change across risk management processes as part of Capita's ESG principal risk. However, the analysis has not yet been embedded into financial and strategic planning.
  - **Planned action:** over the past year Capita has deepened its understanding of the potential impacts and assumptions, and is now in a better position to identify ways to incorporate the climate scenario analysis results in our financial and strategic planning processes as part of our low carbon transition plan, expected in line with anticipated government legislation.
2. **Strategy B – transition plan:** Capita has not yet consolidated its climate strategy and response into a transition plan, but is committed to achieving net zero by 2045, with our near-term and long-term science-based targets validated by the SBTi.
  - **Planned action:** In response to the UK Transition Plan Taskforce guidance, we are committed to developing a climate transition plan to expand and align our target action plan with this guidance.
3. **Metrics & targets A – TCFD cross-industry metrics:** since the publication of cross-industry climate-related metric categories from the TCFD in 2021, and with a better understanding of climate risks and opportunities, we have been seeking ways to introduce new reporting of climate KPIs.
  - **Planned action:** this work is ongoing as we progress towards a climate transition plan.

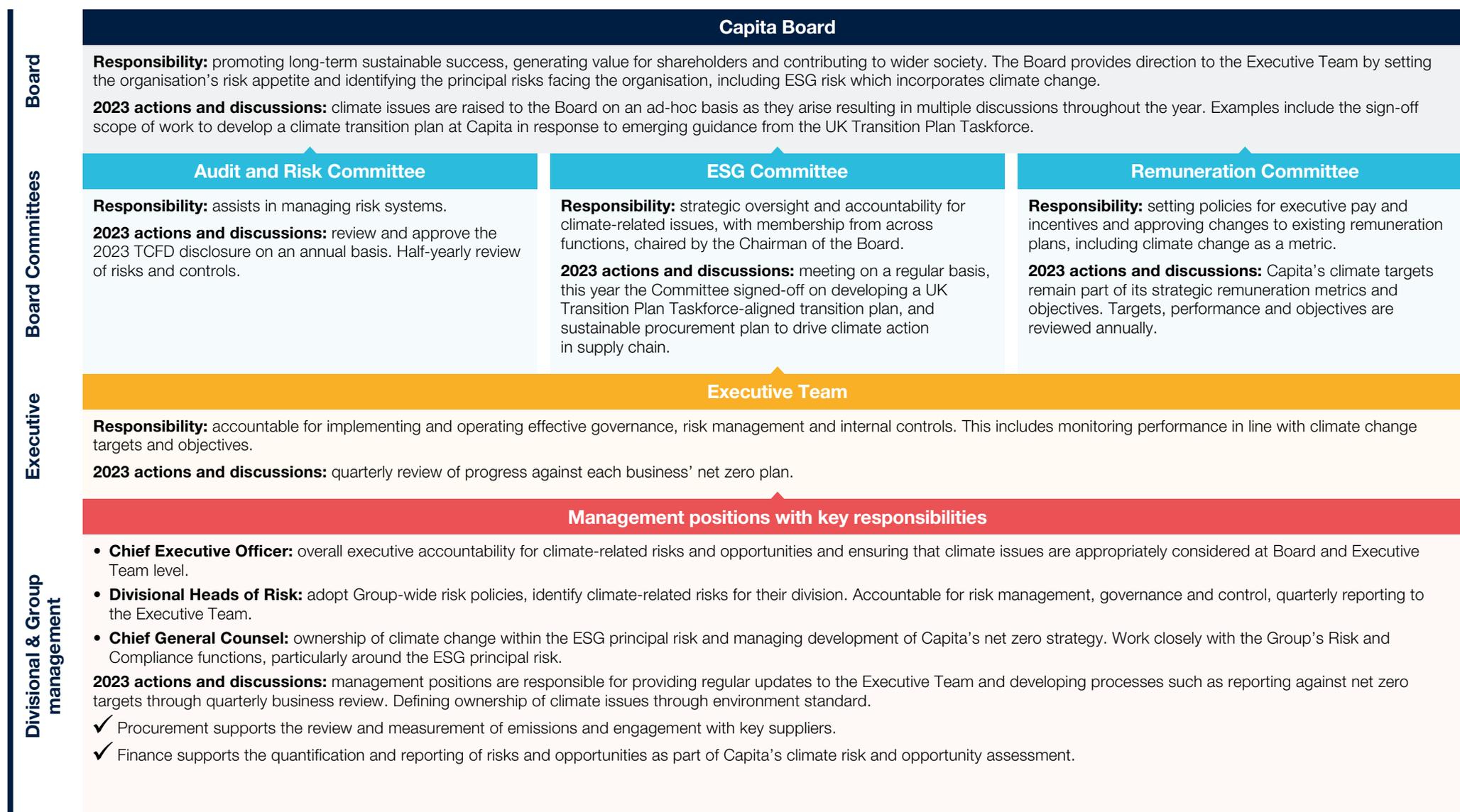
## Governance

Capita recognises that climate change and wider environmental emergencies present significant risks to society and the planet. Therefore, dedicated roles and responsibilities have been defined in line with Capita's risk management process.

The Board has ultimate accountability for these risks and their management, with delegated responsibilities to both Board committees and the Executive Team, cascading to management for day-to-day oversight. An overview of climate-related responsibilities and decision-making processes across Capita is shown on page 51.

## I Responsible business ▶ TCFD *continued*

### Climate-related responsibilities and decision making governance structure



## I Responsible business ▶ TCFD *continued*

### Strategy

Capita has used climate scenario analysis to identify, assess, and prioritise climate risks and opportunities. This forward-looking assessment strengthens the Group's understanding of the possible impacts across different climate scenario outcomes to inform the overall business strategy, build resilience and mitigate climate risk impacts. Capita is continually evolving its approach to climate risk and opportunity assessment to increase depth and coverage over time, and better align with the business' strategic priorities.



### Climate scenarios

In designing our approach to climate scenario analysis, we engaged with climate consultants to understand the appropriate parameters to use.

**Timeframes:** our climate assessment considers potential impacts across short-term (0–3 years), medium-term (4–9 years), and long-term (10+ years) time horizons to reflect the longer-term impacts of climate change. The time frames that have been selected align with those used in our risk management processes.

**Climate scenarios:** across the phases of climate scenario analysis, Capita has referenced a range of different climate scenario sources dependent on the suitability for analysing selected risks. Broadly the Group has referenced scenarios under three categories shown in the following table: orderly transition, disorderly transition, and hot house world. These scenarios were selected to explore the potential worst-case impacts of transition and physical risks.

Scenario category	Orderly transition	Disorderly transition	Hot house world
<b>Storyline</b>	Ambitious early action increases risks associated with low carbon transition but limits the effects of global warming.	Delayed, or late and sudden action resulting in transition-related shocks to society alongside higher impacts from physical risks.	Limited action results in significant warming, and more severe impacts from physical risks.
<b>Temperature outcome</b>	1.4 – 1.6°C	1.4 – 1.6°C	2.6 – 4°C+
<b>Scenario source/model</b>	NGFS's Orderly Transition including Net Zero 2050 & Below 2°C. IEA Net-Zero 2050	NGFS's Disorderly Transition including Delayed Transition & Divergent Net Zero	NGFS's Hot House World scenario including Current Policies & NDCs. RCP 8.5

### Climate risks and opportunities

The identification and assessment methodologies for each phase of analysis are described in more detail in the Risk management section on page 55. The consolidated list of risks and opportunities relevant to our business is disclosed on the following page. Over the years our continued assessments have broadened our perspectives on the risks and opportunities that could impact Capita. To simplify the list of risks and opportunities identified, we have categorised the risks and opportunities into four groups. The following table lists the categories and associated risks, providing more detail on the drivers and potential impacts to the business, including how we are or plan to respond. The four categories include:

- **Market shift for low-carbon solutions:** increase in demand for low-carbon solutions which could take a larger market share.
- **Net zero transition:** investment required to align with the transition and mitigate risk across the value chain.
- **Stakeholder expectation for climate action:** mandates and requests for climate action and disclosure to align with ambitious goals.
- **Physical risk:** increasing impact from extreme weather events across the value chain.

## I Responsible business ▶ TCFD *continued*

### Climate risks and opportunities table

	Climate risks	Potential financial business implications	Summary of climate scenario analysis	Management responses and opportunities
Transition risks and opportunities	<p><b>Market shift for low-carbon solutions</b> and lack of skills required to respond.</p> <ul style="list-style-type: none"> <li>Increasing requests and demands for low-carbon products and services which are beyond typical services currently provided by Capita.</li> </ul>	<ul style="list-style-type: none"> <li>Loss of revenue and market share if Capita is not able to capture low-carbon opportunities.</li> <li>Investment required to develop strategic capabilities and upskilling of workforce.</li> <li>Loss of profit margins if Capita must outsource elements of service delivery for low-carbon solutions where we do not have capabilities.</li> </ul>	<p>Capita is already seeing an increased demand for low-carbon solutions. We expect this trend to increase in an orderly scenario in the short-term as solutions are required to meet transition goals.</p>	<ul style="list-style-type: none"> <li>Build strategic focus on growing service offerings of consulting and technical low-carbon solutions.</li> <li>Raise awareness and capabilities across Capita to respond more quickly and easily to increasing demand.</li> </ul> <p><b>Opportunity:</b> To grow our low-carbon offerings and access new markets to raise revenues.</p>
	<p><b>Net zero transition</b> increases capex requirements for decarbonisation as well as higher opex related to carbon-generating activities.</p> <ul style="list-style-type: none"> <li>Major investment may be required to decarbonise business operations, eg through upgrading boilers.</li> <li>Internal resources required to manage and mitigate climate impacts.</li> <li>Introduction and expansion of carbon pricing mechanisms to increase the cost of carbon and incentivise the shift to low-carbon operations.</li> </ul>	<ul style="list-style-type: none"> <li>High upfront investment costs required to decarbonise operations across the value chain.</li> <li>Resource required to support value chain engagement to drive climate action across the value chain.</li> <li>Increased direct costs associated with carbon taxation.</li> <li>Increased indirect costs associated with energy procurement or passed through from suppliers.</li> </ul>	<p>Capita is committed to achieving net zero by 2045, which minimises its exposure to transition risks. Without effective controls, this risk would be most prevalent in an orderly and disorderly scenario where climate policy is most advanced and would be expected to increase over time.</p>	<ul style="list-style-type: none"> <li>Assess viability and prioritisation of decarbonisation measures eg energy efficiency, fuel switching, and renewable energy to reduce emissions which can offer cost savings and minimise exposure to higher transition costs.</li> <li>Continue use of Capita's sustainability procurement plan to work with suppliers which are less carbon-intensive and aligned with the Group's decarbonisation goals.</li> <li>Increase flexibility of property portfolio to enable more agile response to changing energy and transition demands.</li> </ul> <p><b>Opportunity:</b> Capita is planning to minimise its exposure to transition risks through continued action against its net zero target eg energy efficiency measures, and by developing a comprehensive transition plan to consolidate these actions.</p>
	<p><b>Stakeholder expectations for climate action</b> could result in reputational damage and financial implications if seen to be insufficiently responding to climate action or reporting requirements.</p> <ul style="list-style-type: none"> <li>Increasing customer demand to meet climate-related requirements in bids.</li> <li>Legislation &amp; compliance requirements covering a range of environmental issues.</li> <li>Increasing stakeholder concern around the sufficiency of sustainability action.</li> </ul>	<ul style="list-style-type: none"> <li>Increased exposure to financial penalties, additional costs, or exclusion from business activity if not meeting customer or jurisdictional requirements.</li> <li>Potential loss of opportunities if unable to respond effectively to climate-related bid requirements.</li> <li>Loss of market share if competitors gain competitive advantage from more ambitious climate action.</li> <li>Risk of losing top talent and investment if not seen to be taking sufficient action.</li> </ul>	<p>Capita is already responding to mandatory and voluntary climate reporting frameworks to promote transparency for interested stakeholders. Stakeholders are already expressing high expectations, which are expected to increase significantly in an orderly scenario over time.</p>	<ul style="list-style-type: none"> <li>Raise awareness and continue to strengthen environmental credentials to better respond to customer requests and align with the best practice of reporting mandates.</li> <li>Continual monitoring, with defined accountability for net zero achievement cascaded through the business.</li> </ul> <p><b>Opportunity:</b> to differentiate its technical solutions by better embedding climate (and other ESG issues) into bid responses. In addition, the Group's continued action to reach net zero by 2045 and transition planning gives Capita a reputational advantage as a climate leader. This will attract top talent and investment and strengthen the business' long-term resilience.</p>
Physical risk	<p><b>Physical climate risk</b> results in disruption across the value chain.</p> <ul style="list-style-type: none"> <li>Operational disruption of owned, leased and supplier assets if impacted by climate events, which are likely to increase in frequency and severity.</li> </ul>	<ul style="list-style-type: none"> <li>Increased frequency and cost of building repairs, and/or adaptation measures.</li> <li>Increased cost of cooling data centres, due to warmer temperatures and water scarcity.</li> <li>Increased response costs to respond to issues like power outages, water sanitation etc, which are affected by climate impacts on local infrastructure.</li> </ul>	<p>Capita has not experienced significant disruption to date. This risk is expected to manifest over long-term time horizons and will be most significant in a hot house world scenario where the temperature rise will be much higher.</p>	<ul style="list-style-type: none"> <li>Capita's flexible property and delivery strategy means we are agile and can minimise overall disruption if a site is temporarily impacted. These response options are outlined as part of our business continuity plans.</li> <li>Conduct in-depth risk assessments to understand the vulnerability to different climate variables so controls are effective.</li> <li>Assess multiple physical climate hazards at key sites to strengthen understanding and response to physical risks.</li> </ul> <p><b>Opportunity:</b> by carrying out an expanded assessment of physical hazards, Capita can limit its exposure to potential future costs linked with physical climate events.</p>

I Responsible business ▶ TCFD *continued*

Climate risks and opportunities table *continued*

In the process of our climate risk and opportunity assessment and scenario analysis, where we identified a need to understand the potential impact on the business, we conducted analysis to explore this in more depth. The following case studies provide examples of our analysis focused on exploring the impacts from water stress and climate-related criteria in bids.

**Case study: key physical risk (2022)**

Water stress at key operational sites causes disruption to operations and higher costs for water supply and treatment.

**What is the risk and the potential impacts?**

- Capita recognises that with continued global warming, increasing water stress (where supply does not meet demand) is expected to drive competition for available supply among consumers and higher prices.
- We assessed the potential impact of water stress across 10 regions including 20 key sites (office, residential, data centres and call centres). The two regions that scored the highest impact rating were South Africa and India, covering several of Capita’s critical operational sites. Moderate impact was identified across Germany, USA, UAE and Poland.
- The main impacts identified include power outages from water stress causing disruption to business activities, as well as increased costs for water sanitation and hygiene facility maintenance driven by increased cost and volatility of water supply.

**What is the business doing about it?**

Capita is exploring possible mitigation actions in South Africa and India that include short-term lease agreements and employing work-from-home contracts to allow flexibility to maintain business activities.



**Case study: key transition risk (2023)**

Future-facing ability to respond effectively to climate-related bid requirements.

**What is the risk and the potential impacts?**

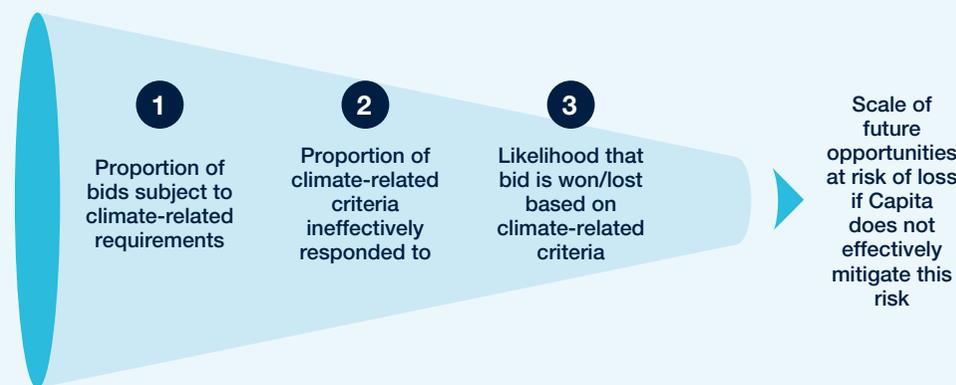
- Capita’s bid process for new service contracts is increasingly subject to environmental and specifically climate-related requirements as part of the scoring process determining bid success. This applies both to public and private sector bids.
- In future, given the fast-changing nature of these requirements and anticipated increases in score weighting for these across both the public and private sector, Capita is at risk of falling behind and losing future business opportunities if it does not adequately prepare to respond.

**What is the business doing about it?**

Capita is engaging across the business to raise awareness of the potential for losing bids if climate-related criteria are not sufficiently addressed. In doing so it has identified measures to mitigate the risk and instead transform this into an opportunity for Capita to differentiate itself among competitors and contribute to positive climate impacts through its services.

The focus areas for risk mitigation include continuing action on environmental performance, strengthening bid governance including the contract review process, and building climate-related capabilities and skills for those involved in the contract delivery lifecycle.

**Factors used to quantify scale of potential financial impact from risk**



## I Responsible business ▶ TCFD *continued*

### Resilience and transition plan

In the near term, transition risks are deemed to be more material to the business than physical risks. While our decarbonisation action plan reduces our exposure to transition risks associated with energy and carbon costs, we are still sensitive to changes in customer behaviour and markets. As such, our engagement strategy with stakeholders across the value chain is important in ensuring we are proactive in minimising the risk and seizing opportunities that align with a net zero transition.

Our climate scenario analysis using hot house world-related scenarios demonstrates how the impacts on our business from physical climate change could increase over time. As such, we plan to conduct further analysis of the impacts from a wider range of physical climate variables across our portfolio and supply chain in the future.

Capita has updated its target to become fully net zero by 2045 and is working to validate this target with the SBTi. Further details on our targets and climate transition plan can be found on our climate change hub webpage.

### Risk management

Understanding the physical and transitional climate-related risks and opportunities relevant to our business means we are better able to identify and respond to the most exposed areas of our business.

Climate change is fully integrated into our risk management system and in 2023 has been categorised as part of Capita's ESG principal risk. As part of the ESG principal risk, climate change risk is subject to oversight and quarterly review by the Board's Audit and Risk Committee, and ownership is assigned to the Chief General Counsel. We also undertook a separate climate risk assessment to ensure the nuances of climate issues are accounted for and understood by the business.

### Risk identification and assessment process

In 2021, Capita held several internal interviews to understand how risks and opportunities manifest for different divisions and functions. A longlist of risks and opportunities relevant to the Group was developed, cross-referenced against a peer review and TCFD resources, and was qualitatively analysed in 2021. The analysis provided Capita with an understanding of which climate issues were most significant to the business.

In 2022, we selected five climate risks to model quantitative potential future financial impact. These risks were selected based on their perceived significance, as well as the feasibility of quantification given data or methodology limitations.

The financial implications were derived by extracting financial indicators from climate scenario sources and overlaying this with our business data eg applying a carbon price to our emissions profile. The risks quantitatively assessed included water stress under the 'physical climate risk' category, and 'net zero transition' carbon pricing under the category supply chain pass-through cost and carbon credit pricing. The assessment results specific to these risk drivers can be found on pages 51 and 52 of the 2022 Annual Report.

In 2023, we prioritised one key transition risk associated with growing stakeholder pressure for climate action, specifically exploring the potential financial impacts of insufficient responses to fast-changing climate requirements in bids. The purpose of this was to develop understanding of the potential future implications and to engage the business on the matter, the outcomes are disclosed on page 54. We developed an internal quantification tool which models the potential financial impacts of lost opportunities under hypothetical scenarios, which is being used to engage relevant divisional teams around our response to this risk and associated opportunity. Capita will adopt a similar approach for the continued analysis of risks and opportunities where it is recognised that there is a lack of business awareness or a significant opportunity.

### Risk controls

As with all Group-wide risks, the scoring process applied to climate change within the ESG principal risk identifies key controls and mitigating actions to reduce risk from inherent to residual level based on the risk appetite defined by the Board.

Current climate risk controls include adopting science-based emission reduction targets; monitoring supply chain emissions; climate factors integrated into due diligence when onboarding new suppliers; business continuity planning to ensure climate resilience; a travel policy to reduce business travel; and ongoing monitoring of health, safety and environment legislation. These controls and their effectiveness are reviewed regularly.

### Risk integration approach

The results of the risk identification and assessment process are integrated into Capita's Group-wide risk management framework, which includes continuous monitoring of ongoing and emerging risks across emerging legal, health, safety and environmental regulations (such as the UK Government's PPN 06/21), using Capita's HSE legal register and an online compliance tool. Assessments into required mitigation actions will be carried out and integrated into Capita's investment planning and strategy.

## I Responsible business ▶ TCFD *continued*

### Metrics and targets

#### Climate-related metrics

The business is committed to developing cross-industry, climate-related metrics in accordance with the 2021 TCFD implementation guidance update. Capita's metrics link to risks and opportunities categorised as market shift to low carbon solutions and net zero in the climate risks and opportunities table above. See the annual GHG emissions table in the Planet section for the movement in metrics and progress against targets.

- **Scope 1 to 3 emissions:** we measure and disclose our operational (Scope 1 and 2) and business travel (Scope 3) GHG emissions annually, see page 42, and our full value chain emissions via CDP's climate questionnaire in accordance with the GHG Protocol's methodology.
- **Exposure to climate-related risks:** the climate scenario analysis conducted under strategy informs the significance of potential exposure to climate impacts over time and different climate scenarios.

- **Proportion of executive remuneration assigned to climate considerations:** Capita incorporated performance against Capita's climate targets in the 2021 remuneration policy applicable for 2023 remuneration.

#### Other climate-related indicators monitored:

- % of supply chain spend with suppliers who have science-based GHG reduction targets, helping track supply chain emissions and attainment of SBTs.
- Proportion of renewable electricity, tracking our fossil fuels phase-out and adoption of new energy sources.
- Emissions associated with business travel, contributing to the attainment of climate targets. Carbon intensity of business by turnover and headcount.

#### Climate-related targets:

Capita has set a range of ambitious targets to reduce the company's impact on global warming, and its exposure to climate-related risks. Capita has updated its target to reach net zero by 2045 and is working with the SBTi to have this verified. A description of our performance over the past three years can be found on page 41.

- **Near-term targets:** Capita commits to reduce absolute Scope 1 and 2 GHG emissions and absolute Scope 3 GHG emissions covering business travel 46% by 2030 from a 2019 base year. Capita also commits that 50% of its suppliers by spend covering purchased goods and services and capital goods will have science-based targets by 2025.

- **Long-term net zero target:** Capita commits to reduce absolute Scope 1 and 2 GHG emissions, and absolute Scope 3 GHG emissions covering purchased goods and services, capital goods, business travel and employee commuting by 90% by 2045 from the base year of 2019, and neutralise any remaining hard-to-abate emissions using robust carbon removals.
- **Capita's plan to achieve these targets across our global operation is addressed under driving down GHG emissions, see page 40.**

## I Risk management and internal control

# Risk management and internal control

### We manage risks proactively

Capita is exposed to a wide range of risks that, should they materialise, could have a detrimental impact on our financial performance, reputation or operational resilience. We recognise that effective risk management and internal control are fundamental to helping to protect shareholder value and deliver our strategic objectives.

### Risk governance and oversight

The Board is ultimately accountable for providing strategic governance and stewardship of the company. Throughout 2023, the principal and emerging risks facing the company continued to be reviewed by the Board, including those risks that could threaten Capita's business strategy delivery, future performance, operational resilience or financial position. The Board is committed to the continuous improvement of our governance and risk management processes, to ensure that risks, including new and emerging risks, continue to be identified and managed effectively and in a timely manner.

The Audit and Risk Committee (the ARC), which has delegated responsibility from the Board for reviewing and assessing the risk management and internal control systems, is responsible for overseeing the Group's principal risk profile and ensuring management has developed effective risk management strategies.

During 2023, the ARC continued to review and brief the Board on the Group's system of risk management and internal control and on the effectiveness of the procedures for internal control over financial reporting, compliance and operational matters.

The executive risk and ethics committee (the EREC) is responsible for identifying, assessing, overseeing and challenging principal risks across all Capita's unregulated businesses and provides regular updates to the ARC. Capita recognises

the importance of its financial services businesses and the need for specific oversight, to manage and mitigate regulatory risks associated within those businesses. This oversight is provided by the financial regulated entities oversight committee (the FREOC). The FREOC is chaired by an independent non-executive director, supported by specialist risk and compliance professionals and provides regular updates to the ARC.

On a day-to-day basis, divisional and functional leaders, senior leadership and business unit teams identify, manage and monitor risks that they are accountable for. Capita recognises that risk cannot be fully eliminated and that there are certain risks the Board and/or the senior leadership will accept when pursuing strategic business opportunities. However, these risk acceptance decisions are made at an appropriate authority level and reflect the organisation's defined risk appetite.

### Cyber incident

On Friday 31 March 2023, a threat actor gained unauthorised access to certain of our IT systems. Capita was alerted to this via our security capabilities and the access was duly interrupted, which significantly restricted the potential impact of loss of sensitive data. Prompt action was taken to secure our systems and remediate issues arising from the incident. Despite the setback, we continued to deliver our contractual commitments and further steps are underway to strengthen our IT infrastructure.

### Improving our internal controls

We continuously seek opportunities to enhance our risk management and internal control environment and introduce greater rigour and standardisation in our processes and controls. The Board recognises that Capita's control effectiveness remains highly dependent on management intervention.

During the year, we initiated a controls improvement programme, to document key business processes and controls. Our Group Internal Audit function will provide assurance over control design as part of its annual audit plan.

The Board and the ARC do not underestimate the work needed to ensure that robust internal control and risk assessment frameworks are embedded fully. Work will continue to be undertaken throughout 2024 and 2025 to enhance and improve the standardisation and overall effectiveness of the Group's internal control framework. The status of the controls improvement plan will continue to be monitored at ARC.

### Minimum control standards

Minimum control standards are the self-assessment of financial controls undertaken by the finance team to identify areas where control improvements are required. Any material issues are dealt with through mitigating activities to ensure the effectiveness of the existing controls over financial reporting.

During 2023, the finance function continued to enhance the self-assessment process across the whole organisation to obtain assurance over the operation of key financial controls. Specific improvements included additional checking procedures to ensure the robustness of assurance over the effectiveness of controls and ensuring the scope of the minimum control standards aligns with the latest documentation of key risks and controls over financial reporting.

### Key control questionnaire

Capita runs a key control questionnaire (KCQ) process. The KCQ is an annual management attestation process where business leaders testify to the effectiveness of key controls and adherence with group policies within their functions, divisions or business units. The results from the KCQ

process inform the development of action plans for control improvement during the subsequent year. The KCQ reinforces accountability and increases business leaders' awareness of their responsibilities in maintaining an effective control environment. The status of KCQ corrective actions arising from the exercise are monitored by EREC throughout the year.

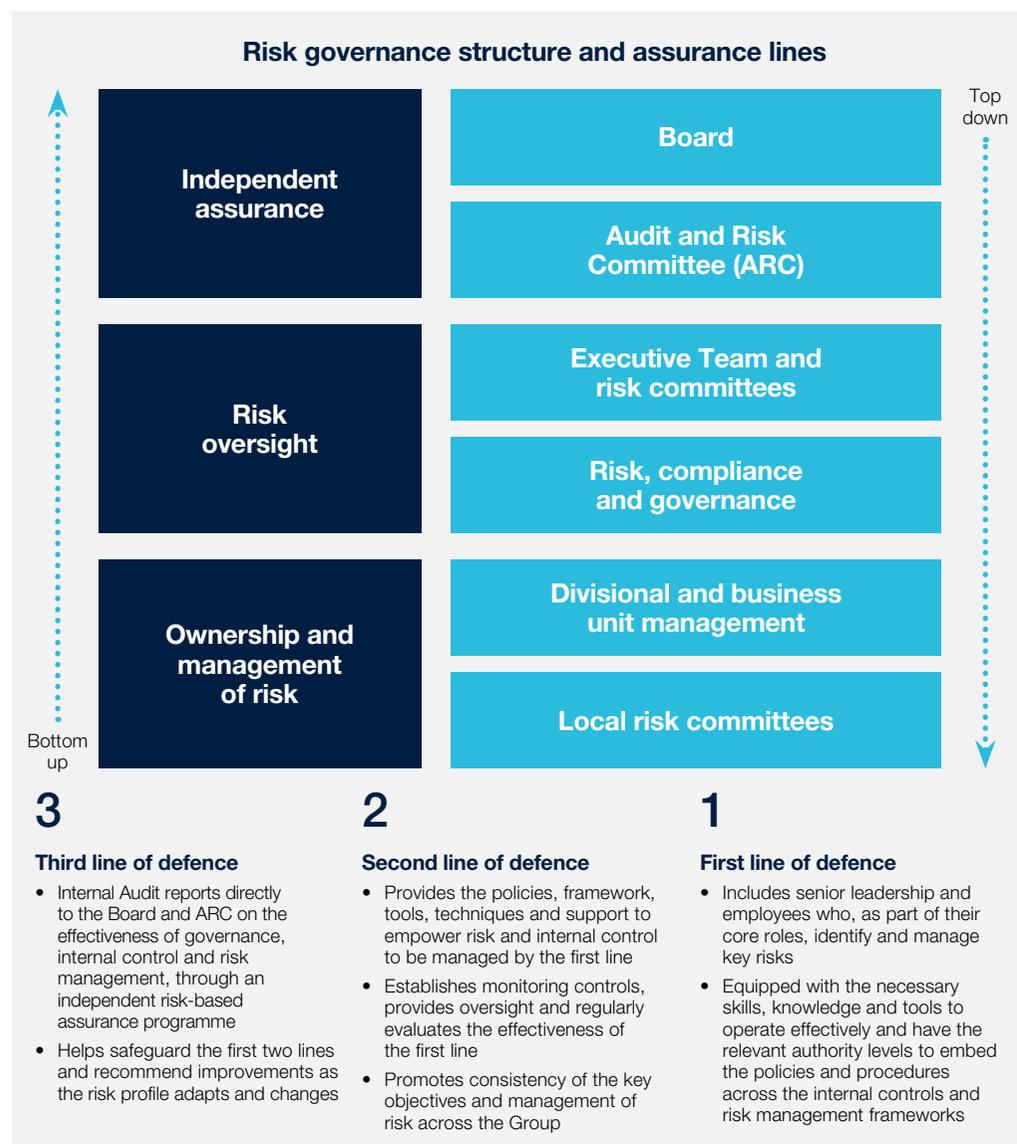
### Risk management process

Our risk management framework (RMF) is defined at a Group level with implementation and execution owned within each of our functions, divisions and business units. The RMF, which is mandated throughout the Company, provides a consistent approach to the identification, assessment, monitoring and reporting of risks and opportunities. The RMF also ensures that ownership and responsibilities for managing risks are clearly understood across the Group.

The functions, divisions and business unit teams then work in collaboration with each other to undertake a 'top down, bottom up' approach to identify, assess and respond to risks faced by Capita. The risk management process is based on risk registers and risk reporting at the established risk governance committees. Key risks are documented in the risk registers and have assigned risk owners who review them regularly, and report on them on at least a quarterly basis, as part of the risk reporting process. The strength of existing controls is evaluated to determine whether any further mitigating actions are needed to manage the risk level to within the risk appetite set by the Board.

A centrally coordinated risk and assurance committee timetable enables timely flow of risk information from business units to EREC, and from EREC to the ARC. During 2023, our risk management processes continued to operate effectively.

## I Risk management and internal control *continued*



### Emerging risks

The identification of emerging risks is carried out by functions, divisions and business units using a bottom-up approach, and the executive from a top-down perspective. Regular reviews of risks, including emerging risks and project/programme risks, are included in risk and assurance committees within Capita's existing governance structures. During the year, Capita identified an emerging risk around our ability to procure, build and implement solutions to improve future and existing client propositions through the use of generative artificial intelligence (gen AI).

We envisage that gen AI will create significant competitive opportunities to the nature of services Capita delivers to clients. The emerging risks associated with this are acknowledged, and further evaluation of the risk and the opportunities this could bring are planned to be explored in 2024.

### Our principal risk profile

Principal risks are defined as those risks that we determine to be the most material which can affect the performance, reputation and operational resilience of our business. These risks are owned and managed by a member of the Executive Team who has accountability for ensuring that the risk is effectively managed. Assigning risk ownership at executive level also ensures that an appropriate level of attention and focus is applied in managing the principal risks.

We recognise that it is good practice to review our principal risk profile regularly to ensure that it remains relevant and in line with our strategic objectives. In Q3 2023, Capita initiated a review of its principal risk profile, which resulted in a reduction in the number of principal risks from 13 to nine. During the course of 2024, we will define the Group's risk appetite in respect of these newly defined principal risks.

The Board remains confident that our existing governance frameworks and risk management processes will ensure that risks, including any emerging risks, continue to be identified and dealt with effectively. While recognising the improvement made over the last few years associated with the simplification of the business, the Board acknowledges that risk management and mitigation is a continuous process and that it is likely to take several years for all risk mitigation actions to be fully effective.

At Capita, principal risks are considered over the same three-year period as the viability statement. They are listed below, and for each risk we disclose key risk drivers, mitigating actions, and intended future mitigations to manage the risk and improve internal control.

## I Risk management and internal control *continued*

Risk	Executive risk owner(s)	Risk category	Risk trend
<b>1. Profitable growth</b>	Divisional Executive Officers (EOs)	Strategic	Stable residual risk position. We continue to bid for and win new contracts on appropriate commercial terms.
<b>2. Contract performance</b>	Divisional EOs	Operational	Stable residual risk position. We continue to deliver services that are vital to the success of our clients in line with contractual commitments.
<b>3. Innovation</b>	Divisional EOs and Chief Technology Officer	Strategic	Stable residual risk position. We continue to work on effectively managing existing propositions and identifying opportunities which will create new propositions for our clients.
<b>4. People attraction and retention</b>	Chief People Officer	People	Improved residual risk position. We are now more successful in attracting talented people we need to succeed and have seen a material decrease in our levels of attrition.
<b>5. Financial stability</b>	Chief Financial Officer	Financial	Improved residual risk position. Following the successful disposal of our Portfolio businesses, the healthy funding position of the Group's main defined benefit pension scheme, and the implementation of the cost reduction programme to deliver £60m of annualised cost savings from Q1 2024 underpinning our plan to generate positive free cash flow in the medium term.
<b>6. Cyber security</b>	Chief Technology Officer	Technology	Stable residual risk position. There is increased focus on improving our cyber security posture to protect our systems from future unauthorised access and use.
<b>7. ESG (environmental, social and governance)</b>	Chief General Counsel and Chief People Officer	Legal and compliance	Stable residual risk position. We are developing our net zero transition plans to reduce our environmental impact and supporting our clients and suppliers to do the same.
<b>8. Safety and health</b>	Chief General Counsel and Divisional EOs	Legal and compliance	Stable residual risk position. We continue to protect the safety and health of all Capita's employees, and manage our duty of care to them, the people we work with and those affected by our acts and omissions.
<b>9. Data governance and data privacy</b>	Chief General Counsel and Chief Technology Officer	Legal and compliance	Introduced as a new risk in 2023. Capita holds significant amounts of employee and client data, and additional resources will be deployed to enhance our data governance and data privacy controls.

### Principal risk

#### 1. Profitable growth

Attract new clients and retain existing clients on appropriate commercial terms.

#### Executive owner:

Divisional EOs

### Key risk drivers

- Inability to renew contracts
- Non-competitive pricing
- Lack of investment and innovation
- Misalignment to market requirement
- Inappropriate commercial terms in contracts

### How we manage the risk

Integral to our growth strategy, this risk considers the potential impact of failure to win new bids or renew existing contracts on appropriate commercial terms.

There is enhanced focus on leveraging digital platforms and technology enabled solutions to meet and enhance our value proposition.

#### Mitigating actions

- Market sector strategies and account plans
- Streamlined delivery capability
- Contract commercial review process
- Investment committees and digital strategy
- Business Development function, providing market intelligence and horizon scanning
- Divisional performance reporting process

#### Future mitigation

- Enhanced sales governance process
- Acceleration of digital strategy
- Market sector strategies and account plans, aligned to work being undertaken by external strategy consultants.
- Effective framework exploitation
- Strengthen customer focus (including customer centricity workstream and customer advisory boards)
- Renewed focus on mid-range deals
- Re-baseline onerous contract terms

## I Risk management and internal control *continued*

Principal risk	Key risk drivers	How we manage the risk	Principal risk	Key risk drivers	How we manage the risk
<p><b>2. Contract performance</b></p> <p><b>Deliver services to clients in line with contractual and legal obligations.</b></p> <p><b>Executive owner:</b> Divisional EOs</p>	<ul style="list-style-type: none"> <li>• Ineffective contract management</li> <li>• Lack of the capacity or capability to deliver contractual expectations</li> <li>• Ineffective service mobilisation</li> <li>• Inadequate supplier management</li> <li>• Aged, unstable or unreliable infrastructure</li> </ul>	<p>Clients and customers are at the heart of what we do. Ensuring that we not only deliver services to clients in line with contractual and legal obligations, but going above and beyond is fundamental to our strategy in ensuring that we remain as trusted partners to our clients. There is constant focus on enhancing customer engagement and improved governance of contract lifecycle management.</p> <p><b>Mitigating actions</b></p> <ul style="list-style-type: none"> <li>• Contract management framework and performance reviews</li> <li>• Sales governance</li> <li>• Robust lifecycle management and programme delivery</li> <li>• Supplier management framework</li> <li>• Resilience and recovery plans</li> <li>• Internal and external assurance</li> <li>• Effective operational business resilience and recovery plans</li> </ul> <p><b>Future mitigation</b></p> <ul style="list-style-type: none"> <li>• Contract monitoring and assurance</li> </ul>	<p><b>3. Innovation</b></p> <p><b>Innovate and develop new customer value propositions with speed and agility.</b></p> <p><b>Executive owner:</b> Divisional EOs Chief Technology Officer</p>	<ul style="list-style-type: none"> <li>• Lack of clear strategy and ownership for innovation</li> <li>• Lack of investment in new technology and capability</li> <li>• Non-alignment with technology trends and developments</li> <li>• Lack of capacity and/or skill sets to develop, scale and sell innovative solutions</li> </ul>	<p>Innovation, the pursuit of new and groundbreaking ideas, technologies and/or strategies inherently involves venturing into uncharted territory which may expose Capita to various risks such as the possibility of failure, financial losses and negative impacts on reputation and market position.</p> <p>Timeliness of embracing appropriate technology and aligning it to enhance customer experience and value proposition is of the essence. The advent of AI brings challenges as well as opportunities for greater innovation.</p> <p><b>Mitigating actions</b></p> <ul style="list-style-type: none"> <li>• Divisional and client group strategy reviews</li> <li>• Digital steering group and investment committees</li> <li>• Intelligence hub which analyses market data and government policy which directly drives our strategy</li> <li>• Dedicated consulting capability to influence and align client solution requirements</li> </ul> <p><b>Future mitigations</b></p> <ul style="list-style-type: none"> <li>• Digital transformation strategy</li> <li>• Glidepath on the approach to innovation, both at divisional and Group level</li> <li>• Aligning with technology trends and client expectations</li> <li>• Develop innovative products and services delivering value addition to the client and their business</li> <li>• Investment in cloud and data analytics</li> </ul>

## I Risk management and internal control *continued*

Principal risk	Key risk drivers	How we manage the risk	Principal risk	Key risk drivers	How we manage the risk
<p><b>4. People attraction and retention</b></p> <p><b>Attract, develop, engage and retain the right talent.</b></p> <p><b>Executive owner:</b> Chief People Officer</p>	<ul style="list-style-type: none"> <li>Development opportunities and career progression that do not meet the expectations of colleagues</li> <li>Uncompetitive pay and benefits</li> <li>External market factors effecting the availability of labour</li> </ul>	<p>Our people are our assets and we have been successful in attracting the talented people we need to succeed. In 2023, we have also seen material improvements in our levels of attrition. Moving forward, we are focusing on how we engage and develop our people.</p> <p><b>Mitigating actions</b></p> <ul style="list-style-type: none"> <li>Career path framework and succession process</li> <li>Global reward framework</li> <li>Global management and leadership academy, performance and development process</li> <li>Monitor external labour market and trends</li> <li>Employee engagement survey</li> <li>Colleague performance reviews</li> </ul> <p><b>Future mitigations</b></p> <ul style="list-style-type: none"> <li>Roll out remainder of the career path framework to enable employees to plan and develop their careers</li> <li>Continue to roll out pay and reward framework across all countries to ensure that they are competitive</li> <li>Complete design and implementation of leadership essentials programme</li> <li>Continue to explore opportunities to utilise offshore capability</li> </ul>	<p><b>5. Financial stability</b></p> <p><b>Maintain financial stability and achieve financial targets.</b></p> <p><b>Executive owner:</b> Chief Financial Officer</p>	<ul style="list-style-type: none"> <li>Inaccurate (long and short-term) forecasting, business planning and connected cash flow volatility</li> <li>Unexpected breach of debt covenants resulting in inability to drawdown facilities/ refinancing as required</li> <li>Restrictions in current pension and borrowing agreements hindering/preventing implementation of desired corporate strategy</li> <li>Inefficient cost base</li> <li>Significant unexpected event(s)</li> </ul>	<p>The trading performance of the Group is outlined in the Chief Financial Officer's review. The Group's low levels of net debt, pension surplus, prudent balance sheet management and focus on improving free cash flow before business exits all serve to mitigate the risk of financial instability.</p> <p><b>Mitigating actions</b></p> <ul style="list-style-type: none"> <li>Contract review committee approval of key contracts, monitoring of major contract risks</li> <li>Internal review and challenge of business plan and reforecasting during the year</li> <li>Scenario modelling during business planning</li> <li>Prospective monitoring of direct cash flow and covenant compliance</li> <li>Existence of insurance mitigates some events</li> <li>Ongoing reviews of business performance</li> </ul> <p><b>Future mitigations</b></p> <ul style="list-style-type: none"> <li>Improve cash generation by delivering £60m of annualised cost savings from Q1 2024</li> <li>Target a further £100m of annualised efficiencies to be delivered by the middle of 2025</li> <li>Enhance the Group's cash forecasting and reporting processes</li> </ul>

## I Risk management and internal control *continued*

Principal risk	Key risk drivers	How we manage the risk	Principal risk	Key risk drivers	How we manage the risk
<p><b>6. Cyber security</b></p> <p><b>Protect our systems, networks and programs from unauthorised use and access.</b></p> <p><b>Executive owner:</b> Chief Technology Officer</p>	<ul style="list-style-type: none"> <li>Sub-optimal identify, protect, detect, respond and recover capability (Cybersecurity's Five Functions as defined by the National Institute of Science and Technology)</li> <li>External threat (tech change, legal and regulatory including international, geopolitical landscape)</li> <li>People (insider threat, capacity and capability, training and awareness)</li> <li>Insufficient funding to improve and maintain security posture</li> <li>Third party and partners' inadequate cyber and information security posture</li> </ul>	<p>Cyber security is a key focus for Capita and we continuously monitor and improve our cyber posture to ensure our systems, networks and programs are protected from unauthorised use and access.</p> <p><b>Mitigating actions</b></p> <ul style="list-style-type: none"> <li>Cyber security strategy and compliance assessment framework</li> <li>Threat Intelligence function</li> <li>Cyber training and awareness</li> <li>Supplier information security due diligence process</li> <li>Communication and education plan supported with mandatory training</li> </ul> <p><b>Future mitigations</b></p> <ul style="list-style-type: none"> <li>Security design governance framework</li> <li>Deliver against our National Institute of Science and Technology improvement plan</li> <li>Deliver cyber security programme</li> <li>Standardise and enhance our security toolset</li> <li>Security operation centre improvement</li> </ul>	<p><b>7. ESG</b></p> <p><b>Comply with regulatory and contractual requirements to drive a purpose driven organisation with the right focus on governance.</b></p> <p><b>Executive owners:</b> Chief General Counsel and Chief People Officer</p>	<ul style="list-style-type: none"> <li>Non-compliance with applicable regulations and Capita policies and standards including but not limited to: supplier charter; Code of Conduct; human rights; environment; anti-bribery and corruption; procurement; conflict of interest; financial crime; diversity and inclusion; business resilience; and incident management</li> <li>Inadequate monitoring, reporting and inability to fully understand all contractual obligations</li> <li>Changing regulatory environment – eg new ESG reporting legislation</li> </ul>	<p>Capita is committed to being a responsible organisation. This means a constant, Group-wide focus on governance and how we can deliver better for all our stakeholders – employees, shareholders, clients, end-users and communities. We are committed to transitioning to net zero by 2045, reducing our environmental impact and supporting our clients and suppliers to do the same.</p> <p><b>Mitigating actions</b></p> <ul style="list-style-type: none"> <li>Responsible business principles, divisional action plans, divisional delivery and compliance, including annual external index ratings: EcoVadis, Dow Jones Sustainability Index, Sustainalytics</li> <li>ESG governance process</li> <li>Net zero governance</li> <li>Supply chain management including due diligence</li> <li>Human rights policies and procedures, including our modern slavery statement</li> <li>Operational resilience and incident management</li> </ul> <p><b>Future mitigations</b></p> <ul style="list-style-type: none"> <li>Develop divisional and functional net zero plans to monitor and manage emissions</li> <li>Finalise and implement the responsible business principles</li> <li>Develop and implement a plan to manage regulatory changes to ESG legislative environment</li> <li>Improve the due diligence framework to meet the additional legislative requirements outside the UK</li> <li>Develop a system/programme to measure compliance with supplier charter on an ongoing basis</li> </ul>

## I Risk management and internal control *continued*

Principal risk	Key risk drivers	How we manage the risk	Principal risk	Key risk drivers	How we manage the risk
<p><b>8. Safety and health</b></p> <p><b>Protect the safety and health of all Capita's employees and manage our duty of care to them, the people we work with and those affected by our acts and omissions.</b></p> <p><b>Executive owners:</b> Chief General Counsel and Divisional EOs</p>	<ul style="list-style-type: none"> <li>• Immature practical approach and lack of ownership and accountability across Capita</li> <li>• Inadequate HSE capability, capacity and structure</li> <li>• Inadequate incident and near miss reporting and analysis</li> <li>• Lack of standardised and reliable health data</li> </ul>	<p>As a responsible employer we are committed to the health, safety and wellbeing of our employees and the people we work with.</p> <p><b>Mitigating actions</b></p> <ul style="list-style-type: none"> <li>• Assurance programme for wellbeing, HSE, occupational health, and safeguarding</li> <li>• Pan-Capita HSE team reporting lines, structure, and capability/capacity review</li> <li>• Health data collection and analysis</li> <li>• Framework of safety and health policies, standards and processes including mandatory training</li> <li>• Accidents, incidents, near misses and hazards reporting along with divisional/Group incident analysis/investigation and lessons learned</li> <li>• Incident management in line with Group policies, standards and procedures</li> </ul> <p><b>Future mitigations</b></p> <ul style="list-style-type: none"> <li>• Expand proactive occupational health intervention programme in Capita UK</li> <li>• Reconfigure reporting lines, structure, and capacity of divisional HSE team</li> </ul>	<p><b>9. Data governance and data privacy</b></p> <p><b>Manage our data effectively (both clients and Capita) as a strategic asset across the organisation.</b></p> <p><b>Executive owners:</b> Chief General Counsel and Chief Technology Officer</p>	<ul style="list-style-type: none"> <li>• Inconsistent data governance framework, practices or technology to manage data</li> <li>• Lack of awareness of regulatory (especially data privacy) obligations</li> <li>• Lack of understanding of what data we have, where it is stored and who owns it</li> </ul>	<p>Data is the lifeblood of Capita and a strategic asset that we will manage to improve client value and citizens' lives, allow risk to be managed more effectively, elevate trust with stakeholders, increase growth, enable business efficiency, and enable technological innovation and digital transformation. Capita has appointed a Chief Data Officer to drive transformation in this space in 2024.</p> <p><b>Mitigating actions</b></p> <ul style="list-style-type: none"> <li>• Data privacy policies, standards, procedures and mandatory data privacy training</li> </ul> <p><b>Future mitigations</b></p> <ul style="list-style-type: none"> <li>• Implement data governance control framework</li> <li>• Embed data privacy processes through the allocation of appropriate resourcing by the businesses and functions, in accordance with already promulgated Group data privacy policy and standards</li> </ul>

## I Viability statement

# Viability statement

In accordance with provision 31 of the UK Corporate Governance Code 2018, the Board has assessed the viability of the Group and Parent Company over the three-year period to 31 December 2026, aligned with the period of the Group's business planning process. The Board believes that a three-year period provides sufficient clarity to consider the Group and Parent Company's prospects and facilitates the development of a robust base case set of financial projections against which severe but plausible downside scenario stress testing can be conducted.

In its assessment of the Group's viability, the Board has considered the following:

- Adjusted revenue growth in 2023 of 1.3%.
- The cost reduction programmes being implemented during 2024.
- The completion of the Portfolio non-core business disposal programme in January 2024.
- The repayment of £113m of financial debt in 2023, with no further repayments scheduled in 2024.
- The renewal of the revolving credit facility in 2023 until 31 December 2026 and the issuance of £101.9m US private placement debt with a mixture of three and five-year maturities.
- Agreement with the Trustees of the Group's main defined benefit pension scheme that no further deficit recovery contributions are required from the Group in 2025 and beyond.

The foregoing elements provide the backdrop to the three-year business plan approved by the Board in December 2023. The main assumptions underpinning the base case financial projections in the Group's business plan are set out below:

- Further adjusted revenue growth beyond 2024 broadly in line with market trends in each of the two core divisions.
- Operating profit margin expansion over the business plan period reflecting the benefit of operating leverage coupled with ongoing efficiency delivery.
- Delivery of cost savings.
- A transition to positive free cash flow generation reflecting the above assumptions and the cessation of pension deficit contributions with effect from 2025.

The most material assumptions, from a viability assessment perspective, relate to the continuation of adjusted revenue growth, operating profit margin expansion, and delivery of cost savings.

The three-year base case financial projections were used to assess covenant compliance and liquidity headroom under different scenarios. This analysis included assessing the sensitivity of the financial performance of the Group to changes in trading conditions in line with those considered in the severe but plausible downside case for the going concern assessment and from the crystallisation of specific risks including those set out in the principal risks section of the 2023 Annual Report and Accounts (refer to section 1 of the consolidated financial statements).

The risks applied have not been probability weighted but rather consider the impact should each risk materialise by applying a 'more likely than not' test. These wide-ranging risks are unlikely to crystallise simultaneously and there are mitigations under the direct control of the Group, including reductions in capital investment, substantially reducing (and/or removing in full) bonus and incentive payments, and significantly reducing discretionary spend, that can be actioned to address a combination of risk crystallisations that may occur under a severe but plausible downside. These have been considered in the Board's viability assessment.

Reflecting the Board's expectations of improving financial performance, as set out above, and its confidence in the Group's ability to refinance maturing debt over the viability assessment period, the Board has a reasonable expectation that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period of the viability assessment.

The strategic report was approved by the Board and signed on behalf of the Board:

**Claire Denton**  
Chief General Counsel and  
Company Secretary

5 March 2024

Capita plc

Registered in England and Wales  
No.2081330

# Corporate governance

## Corporate governance

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## I Chairman's report

# Chairman's report



“The Board strongly believes that good governance is a key part of the strength of our business and that by reviewing and monitoring our existing practices we can ensure that our governance continues to evolve and is aligned to our business and its needs”

David Lowden, Chairman

## Dear Shareholder,

On behalf of the Board, I am pleased to introduce the Company's corporate governance report for the year ended 31 December 2023.

2023 was my first full year as Chairman, following my appointment in May 2022.

## Corporate governance

This corporate governance report sets out how the Company has complied with the 2018 UK Corporate Governance Code. It also aims to explain the work and activities of the Board, and the work of its committees.

## Company purpose and culture, and Board decision making

We recognise that the Board has ultimate responsibility for ensuring an appropriate culture is in place across Capita to underpin how the business behaves towards all its stakeholders. Our culture provides the foundation to deliver our strategy for all stakeholders – our people, clients and customers, suppliers and partners, investors, and society. We fully understand our obligations to consider the interest of all our stakeholders when making decisions, but we recognise that in certain instances the interests of our differing stakeholders may conflict, presenting challenging decisions for the Board and senior management.

During the year, principal issues for the Board's focus included: responding to the cyber incident which occurred in late March; CEO succession planning; the Company's operational and financial performance; and capital allocation considerations.

The Board considered and approved actions to improve the Company's financial performance and position, which is in the interests of all stakeholders. This included the issuance of the US private placement notes in July and the extension of the maturity of the Group's revolving credit facility, improving the Group's debt profile and, in November, commencement of the restructuring programme intended to deliver £60m of annualised cost savings from Q1 2024.

The Board and the Audit and Risk Committee spent considerable time during the year focusing on the cyber incident, and the subsequent acceleration of investment to improve further the cyber maturity profile of the Group. In addition, the Company undertook an extensive organisational review and, as announced on 21 November 2023, commenced a consultation programme expected to deliver cost savings of £60m on an annualised basis from Q1 2024, with approximately 900, principally indirect, support function and overhead roles 'at risk' of redundancy. While the Board recognised the impact on some of our colleagues, we considered that this decision, which would contribute to a more sustainable future for Capita, was in the long-term interests of the Company and our stakeholders as a whole. Capita provided support to affected colleagues during the initial consultation process, which concluded in early 2024.

Our s172 statement, which details how the Board considers the views of its stakeholders and principal Board decisions during 2023, is on pages 45 to 48.

## I Chairman's report *continued*

### Board succession planning and composition

#### Chief Executive Officer (CEO) successor

As announced on 31 July 2023, Jon Lewis informed the Board in 2022, that he was interested in exploring his future options, including eventual retirement from Capita and handover to a new CEO, once the business had pivoted to growth and a potential successor had been identified. Following these discussions, the Board commenced a succession-planning process.

Jon stood down from his role as CEO and from the Board on 17 January 2024, and was succeeded by Adolfo Hernandez. Jon will remain in the business until July to ensure an orderly transition. Adolfo was chosen by the Board after a rigorous selection process.

Prior to his appointment as CEO, Adolfo was the Vice President of Amazon Web Services Global Telecommunications business, which is focused on enabling digital transformation to the cloud for customers around the globe. During his 30-year career in the technology sector, Adolfo has achieved an excellent record in accelerating revenue growth driven by digital services. We were pleased to welcome Adolfo as our CEO in January and believe that his experience and skillset will be key to delivering our strategic priorities. Further information on Adolfo's skills and experience are provided in his biography on page 70 of this corporate governance report and details of the selection process we followed are provided in my Nomination Committee report on pages 79 to 83.

On behalf of the Board, I would like to express our sincere thanks to Jon and pay tribute to his significant commitment and achievements at Capita since he joined in December 2017, including leading the successful transformation of the Group. He has shown outstanding leadership and determination in rebuilding Capita from the ground up. Jon has refocused, strengthened and returned the business to growth, while rebuilding client trust and improving colleague engagement. I also want to commend him for his leadership throughout the period following the cyber incident, during which Jon decided to delay his possible retirement from Capita.

#### Non-executive directors

John Cresswell decided to step down from the Board on 31 March 2023. On behalf of the Board, I would like to thank John for his commitment and valuable contribution to the Board during his seven-year tenure as a director. We welcomed Claire Miles to the Board as an independent Non-Executive Director on 12 May 2023. Shortly after Claire's appointment to the Board, she was offered the position of chief executive officer of Stagecoach, the UK's largest bus and coach operator. Due to Claire's new executive role, she informed the Board in December that she would be unable to devote the appropriate time to her role at Capita and would therefore resign as a director. Claire stepped down from the Board on 31 December 2023. The Board fully understood Claire's decision and recognises that each director needs to have sufficient time to dedicate to their role.

The Nomination Committee considers other commitments of our directors annually to ensure that each director is able to allocate sufficient time to Capita to discharge their responsibilities and I discuss this with each director during my one-to-one meetings with them. The Board does, however, recognise that the ability of directors to share their experiences and expertise from other positions is of value to the Company.

The Board strongly believes that good governance is a key part of the strength of our business and that by reviewing and monitoring our existing practices we can ensure that our governance continues to evolve and is aligned to our business and its needs. This includes assessing our governance structure and, in December 2023, having concluded the Portfolio disposal programme and streamlined the Group, culminating in just two divisions – Public Service and Experience, the Board agreed that while having an employee director on the Board had been successful, this was not suitable for the business going forward, and that instead the Board should ensure that there is broader engagement with colleagues. Consequently, Janine Goodchild our Employee Non-Executive Director stepped down from the Board on 31 December 2023. It is the intention of the Board to increase its visibility with our wider workforce and the Board has appointed Nneka Abulokwe as the designated non-executive director to engage with our workforce. In addition, individual site visits will be arranged for our independent non-executive directors to meet with colleagues.

On behalf of the Board, I would like to thank Claire and Janine for their valuable contributions.

### 2024 AGM

Our AGM will be held on 21 May 2024. This provides an opportunity for our shareholders to meet with our directors and I hope you will be able to attend.

### 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 pleased to receive any feedback you may have.

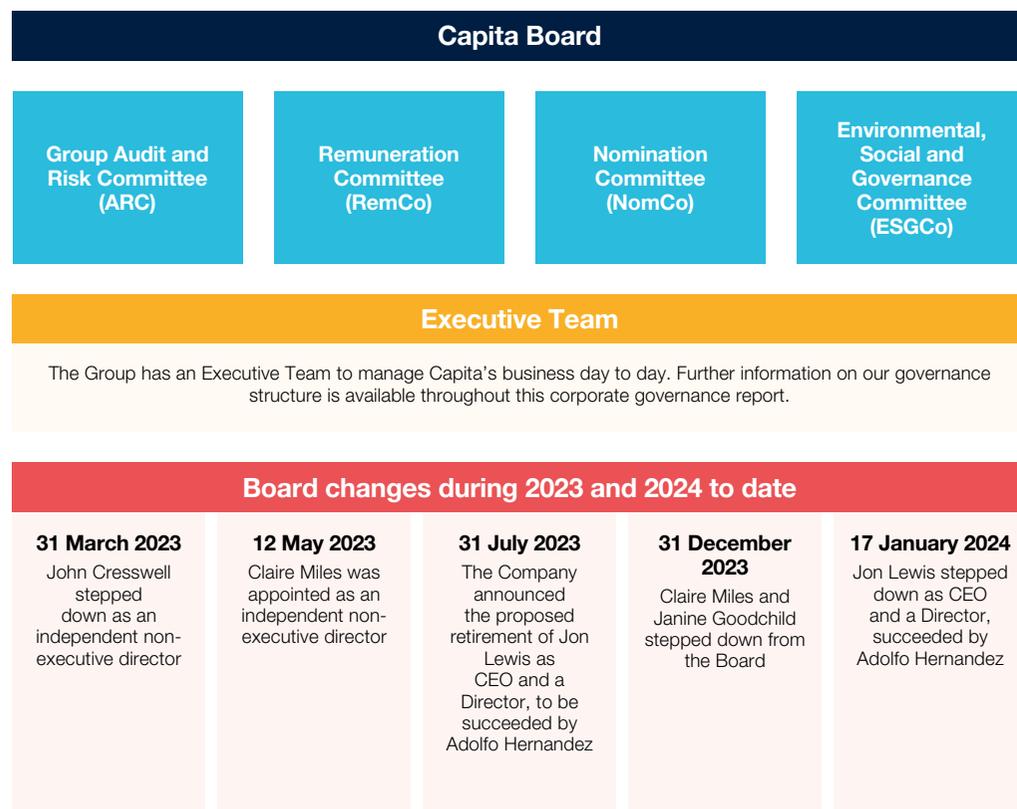
**David Lowden**  
Chairman

5 March 2024

I Governance at a glance

# Governance at a glance

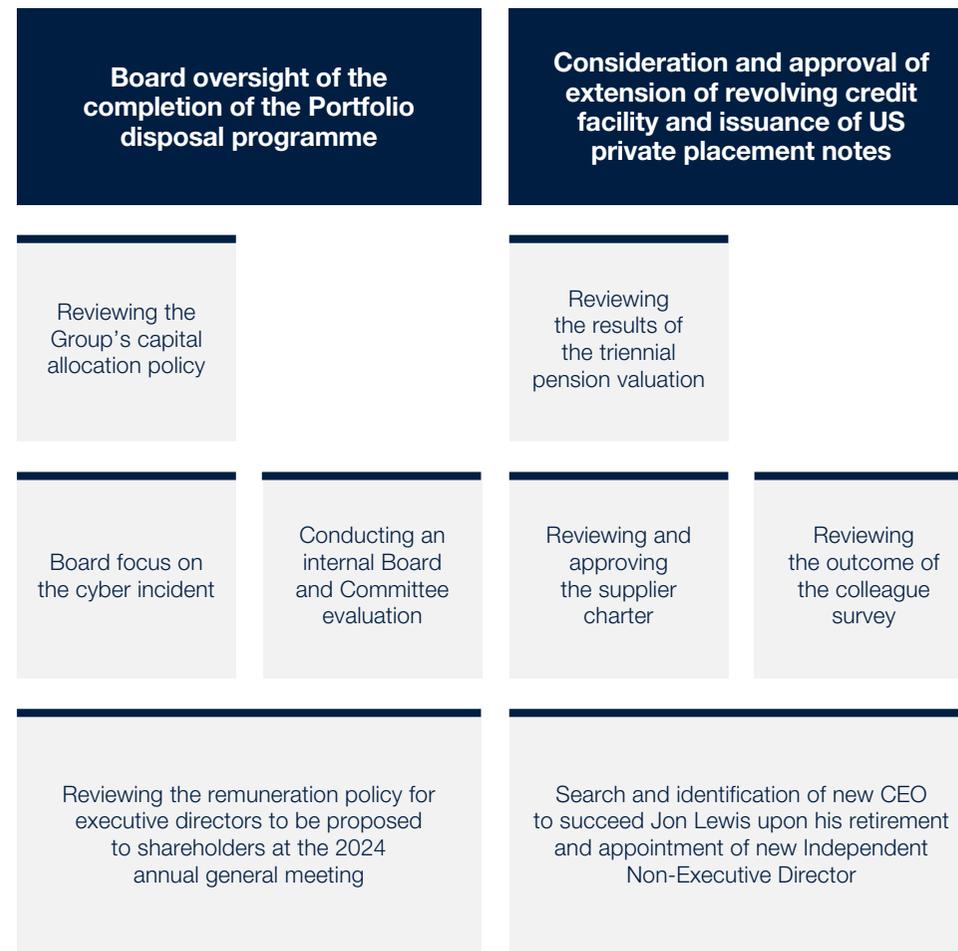
The Board is collectively responsible for promoting Capita’s long-term sustainable success, generating value for shareholders, and contributing to wider society. To assist in providing effective oversight and leadership, the Board has established the following committees:



+ Details of succession planning for the new CEO are provided in the Nomination Committee report on pages 79 to 83

## Governance highlights

During 2023 our governance framework supported our strategic delivery in a number of ways, including:



## I Governance at a glance *continued*

### Board composition at 31 December 2023 and 5 March 2024 (the date of this report)

Member 31/12/2023	Independence (excluding Chairman)		Tenures				Gender representation in senior Board positions		Gender diversity		Ethnic diversity		
	Independent %	Member 05/03/2024	Independent %	31/12/2023 Years	No.	05/03/2024 Years	No.	31/12/2023	05/03/2024	31/12/2023	05/03/2024	31/12/2023	05/03/2024
Chairman		<b>Chairman</b>		>4	2	>4	1	David Lowden, Chairman Jon Lewis, CEO Tim Weller, CFO	David Lowden, Chairman Adolfo Hernandez, CEO Tim Weller, CFO	4 Male (44%)	<b>4 Male (57%)</b>	7 White (78%)	<b>5 White (71%)</b>
CEO/CFO	62.5	<b>CEO/CFO</b>	67	2–3	3	2–3	3	Georgina Harvey, Senior Independent Director	Georgina Harvey, Senior Independent Director	5 Female (56%)	<b>3 Female (43%)</b>	2 Persons of colour (22%)	<b>2 Persons of colour (29%)</b>
5 INEDs		<b>4 INEDs</b>		1–2	3	1–2	2						
Employee Director				<1	1	<1	1						

1. Claire Miles resigned as a director on 31 December 2023.

2. Janine Goodchild resigned as employee director on 31 December 2023.

3. Adolfo Hernandez was appointed as Chief Executive Officer on 17 January 2024, following the retirement of Jon Lewis.

### Board skills and experience

Director	Government contracting	Regulated businesses	Business process outsourcing	Consulting	Account management	Technology and/ or digital	Transformation and strategy	Cyber security	Finance	International	Sustainability
David Lowden							•		•	•	
Adolfo Hernandez	•	•		•	•	•	•	•		•	•
Tim Weller	•	•	•				•		•	•	•
Nneka Abulokwe		•	•	•	•	•	•	•		•	•
Neelam Dhawan	•	•	•	•	•	•	•	•		•	
Georgina Harvey			•		•		•				•
Brian McArthur-Muscroft		•	•			•	•	•	•	•	•

## I Board of Directors

### Key to committees

A Audit and Risk  
 N Nomination  
 R Remuneration  
 E Environmental, Social and Governance (ESG)  
 ● Committee chair

### Chairman



N E

**David Lowden**  
Chairman

**Appointed:** January 2021 (Independent Non-Executive Director); March 2021 (Senior Independent Director); May 2022 (Chairman)

**Independent at appointment:** Yes

**Key skills and experience:** David is a highly experienced non-executive director, senior independent director and chair of UK listed companies. He was formerly Chair of PageGroup plc and Huntsworth plc, Senior Independent Director at Berendsen, Chair of the Audit and Risk Committee at William Hill, Chair of the Audit Committee at Cable & Wireless Worldwide plc and Chief Executive of Taylor Nelson Sofres plc.

**Other current appointments:** Chairman of Diploma plc; and Senior Independent Director of Morgan Sindall plc.

### Executive Directors



N

**Adolfo Hernandez**  
Chief Executive Officer

**Appointed:** January 2024

**Key skills and experience:** Adolfo has c.30 years' experience in the technology sector, achieving an excellent record in accelerating revenue growth driven by digital services. Prior to joining Capita, Adolfo was Vice President of Amazon Web Services Global Telecommunications which is focused on enabling digital transformation to the cloud for customers across the globe. Former positions include: CEO of SDL plc (now part of RWS Group); and CEO of Acision (now part of Mavenir).

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

**External appointments:** None.



**Tim Weller**  
Chief Financial Officer

**Appointed:** May 2021

**Key skills and experience:** before joining Capita, Tim was at G4S for five years as its CFO and for three years before that as a Non-Executive Director. He has many years' experience as a CFO with Innogy, RWE Thames Water, United Utilities, Cable & Wireless Worldwide plc and Petrofac. He qualified as a Chartered Accountant at KPMG, becoming a partner in 1997. He was a Non-Executive Director of The Carbon Trust from June 2007 to September 2023.

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

**External appointments:** Independent Council Member of the University of Exeter.

### Independent Non-Executive Directors



A N R E

**Georgina Harvey**  
Senior Independent Director

**Appointed:** October 2019 (Non-Executive Director); July 2022 (Senior Independent Director)

**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 Director of Superdry plc and Britvic plc and a director of McColl's Retail Group plc.

## I Board members *continued*

### Independent Non-Executive Directors



A N R

**Brian McArthur-Muscroft**

**Appointed:** June 2022

**Key skills and experience:** Brian was formerly the Chief Financial Officer of Qontigo, a financial intelligence and investment management business. Prior to this he was Group Chief Financial Officer at Micro Focus International plc, a FTSE 100 global infrastructure software company. Former roles include CFO at Paysafe Group plc leading the business to a FTSE 250 listing in 2016 and Group FD at Telecity Group plc. Prior to joining Capita he was a Non-Executive Director at Robert Walters plc. Brian holds a law degree and qualified as a chartered accountant with PricewaterhouseCoopers in London.

**Other current appointments:** Brian is the Group CFO at IQ-EQ, a Global Investor Services company.



A N R E

**Nneka Abulokwe OBE**

**Appointed:** February 2022

**Key skills and experience:** Nneka has significant experience of delivering large-scale, high profile technology projects for governments and private institutions globally. She held senior and executive positions with Logica (now CGI), Atos and Sopra Steria, in a corporate career of more than 25 years, before founding MicroMax Consulting, where she is currently CEO. Nneka was also an External Member of the University of Cambridge Audit and Risk Committee. Nneka was awarded an OBE in 2019 for services to business.

**Other current appointments:** NED, Davies Group; Director of MicroMax Consulting Limited; Adviser, Cranfield School of Management Advisory Board and DoGood Africa. Member of Board of Visitors of Oxford University Ashmolean Museum.



A N R

**Neelam Dhawan**

**Appointed:** March 2021

**Key skills and experience:** Neelam has c.40 years experience in the IT industry, where she held senior positions in Hewlett-Packard, Microsoft, Compaq and IBM with responsibility for a wide range of areas including strategy, corporate development, software engineering and offshoring. She now advises multinationals on business and technology transformation and, until recently was an advisor to IBM, helping them navigate through a business and talent transformation in India. Until 2023 Neelam was a director of Skylo Technologies Inc. and a member of the Koninklijke Philips NV Supervisory Board.

**Other current appointments:** Non-Executive Director of ICICI Bank Limited, Yatra Online Inc and Hindustan Unilever Limited and Capillary Technologies.

### Directors who served during 2023

**John Cresswell** stepped down from the Board as Non-Executive Director on 31 March 2023.

**Claire Miles** was appointed as a Non-Executive Director on 12 May 2023 and stepped down from the Board on 31 December 2023.

**Janine Goodchild** stepped down from the Board as Employee Non-Executive Director on 31 December 2023.

## I Corporate governance report

# Corporate governance report

### UK Corporate Governance Code compliance

Capita plc and its subsidiaries (the Group) are 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](http://www.frc.org.uk). The Code sets out the framework of governance for premium listed companies such as Capita plc.

The Board and its Committees note the publication of the UK Corporate Governance Code 2024 (the 2024 Code) published on 22 January 2024, which will apply to accounting periods beginning on or after 1 January 2025, other than Provision 29, which will apply to accounting periods beginning on or after 1 January 2026. The Board has commenced a review of the amended provisions contained within the 2024 Code.

Together with the Directors' remuneration report on pages 96 to 118, this report sets out the Board's approach to governance and the work undertaken over the year. During 2023, we complied with all relevant provisions set out in sections 1 to 5 of the Code except for Provision 24 which provides that audit committees should comprise independent non-executive directors. Janine Goodchild who was a member of the Audit and Risk Committee (ARC) during 2023 was a non-executive employee director and was not considered as independent. However, the Board considered that the formal appointment of Janine to ARC continued to demonstrate how the Group values diversity of perspective and that this is considered more important than a purely compliance-driven approach to the Code. Janine stepped down from the Board on 31 December 2023. Following Janine's resignation, ARC comprises solely independent non-executive directors.

Following Janine's resignation, the Board has appointed Nneka Abulokwe as designated non-executive director for colleague engagement, in compliance with Code Provision 5, and is also considering wider engagement with colleagues. Further information is provided on page 67. Our new CEO, Adolfo Hernandez, has commenced a series of breakfast meetings at different Capita locations to meet with colleagues. In addition, Georgina Harvey, Remuneration Committee chair, has ongoing colleague engagement in respect of executive remuneration and considers feedback from these meetings which is shared with her fellow Committee members and the Board. Further details are included in the Directors' remuneration report on page 100.

Further information about how the Company has applied the principles of the Code is set out in this corporate governance report. Key highlights of the Company's compliance with the Code together with cross references to other sections of the Annual Report are detailed in the table opposite.

### How we apply the principles of the Code

	Pages
<b>Section 1: Board leadership and Company purpose</b>	
Chairman's introduction	66 to 67
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<b>Section 2: Division of responsibilities</b>	
Board composition	75
Role of the Chairman, Senior Independent Director, Non-Executive Directors, and Company Secretary	74
Time commitment, external appointments, independence and tenure	69, 73, 79
<b>Section 3: Composition, succession and evaluation</b>	
Appointment to the Board and succession planning	79 to 83
Skills, experience, and knowledge of the Board	69
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Board evaluation	76
<b>Section 4: Audit risk and internal control</b>	
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Principal and emerging risks	59 to 63
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Fair, balanced, and understandable assessment	89
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<b>Section 5: Remuneration</b>	
Directors' remuneration report	96 to 118
Directors' remuneration policy	101 to 107
Engagement with stakeholders on remuneration	99 to 100

## I Corporate governance report *continued*

# Governance structure and division of responsibilities

## The Board

### Role of the Board

The Board is responsible for promoting Capita's long-term success. This is achieved through effective governance and keeping the interests of stakeholders at the fore in decision making. The Board establishes the Group's purpose and values and sets the Group's strategy, ensuring alignment with our culture, and overseeing its implementation by management. The Board is responsible for oversight of the Group's governance, financial reporting, internal controls, and risk management, including the Group's risk appetite.

A full schedule of matters reserved for the Board's decision is available in the Corporate Governance section of the Company's website at [www.capita.com](http://www.capita.com).

### Board composition and election

Our Board currently comprises seven members: the Chair, the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and four independent Non-Executive Directors who are experienced individuals, drawn from a wide range of industries and backgrounds with the skills to promote the long-term sustainable success of the Group.

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 experience and breadth of tenure of the non-executive directors means the Board is well positioned to advise, challenge, and support executive management as the Group progresses its growth strategy.

All Directors are appointed to the Board for an initial fixed three-year term, subject to annual re-election by shareholders at the Company's AGM. In accordance with the Code, all Directors will retire and offer themselves for election or re-election at the 2024 AGM to be held on 21 May 2024.

### 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 120. The Board believes that each of the non-executive directors 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 interest of the Group. The employee non-executive director was not considered as independent during 2023, given her status as an employee of the Group.

The Code does not consider a chairman to be independent due to the unique position the role holds in corporate governance. David Lowden met the independence criteria outlined in the Code when he was appointed as the Group's chairman in 2022. The Board is satisfied that no conflict of interest for any director requires disclosure, see page 120.

Directors' biographies, tenures, key skills and experience, and external appointments are set out on pages 70 to 71.

## The Board delegates certain matters to its four principal committees:

Nomination Committee	Audit and Risk Committee	Remuneration Committee	ESG Committee
Chair: David Lowden	Chair: Brian McArthur-Muscroft	Chair: Georgina Harvey	Chair: David Lowden
Membership: <b>6</b> Chairman, 4 Independent Non-Executive Directors + CEO	Membership: <b>4</b> All Independent Non-Executive Directors	Membership: <b>4</b> All Independent Non-Executive Directors	Membership: <b>3</b> Chairman and 2 Independent Non-Executive Directors
<ul style="list-style-type: none"> <li>Reviews composition of the Board.</li> <li>Recommends appointments of new directors.</li> <li>Ensures plans are in place for orderly succession to both the Board and senior management positions.</li> <li>Overseas development of diverse pipeline for succession.</li> </ul>	<ul style="list-style-type: none"> <li>Reviews accounting policies and contents of financial reports.</li> <li>Monitors internal control environment.</li> <li>Considers adequacy, effectiveness, and scope of external and internal audit programme.</li> <li>Overseas relationship with external auditor.</li> <li>Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.</li> </ul>	<ul style="list-style-type: none"> <li>Sets remuneration policy and principles for Board and senior management remuneration.</li> <li>Approves incentive design and setting of targets.</li> <li>Approves executive directors and senior management remuneration.</li> </ul>	<ul style="list-style-type: none"> <li>Oversees the development of the Group's ESG strategy, monitoring its performance in relation to ESG matters.</li> <li>Considers the adequacy of the Group's ESG policies and processes.</li> <li>Oversees and monitors the Group's progress against its net zero emissions strategy.</li> <li>Oversees and supports stakeholder engagement on ESG matters.</li> </ul>
The Nomination Committee report can be found on pages 79 to 83.	The Audit and Risk Committee report can be found on pages 87 to 95.	The Directors' remuneration report can be found on pages 96 to 118.	The ESG Committee report can be found on pages 84 to 86.

Committee terms of reference are available on the Company's website at [www.capita.com/about-capita/corporate-governance](http://www.capita.com/about-capita/corporate-governance).

### Executive Team

#### Chair: Adolfo Hernandez

The Executive Team is responsible for the execution of the Company's strategy and the day-to-day management of the business.

### Disclosure Committee

The Disclosure Committee identifies and controls inside information or information which could become inside information and determines how and when that information is disclosed in accordance with applicable legal and regulatory requirements.

### Supporting committees

The Executive Team operates a number of supporting committees that provide oversight on key business activities and risk. These include the executive ethics and risk committee and the Capita investment review committee.

## I Corporate governance report *continued*

### Board leadership and roles

To ensure the Board performs effectively, there is a clear division of responsibilities between the leadership of the Board and the executive leadership:

#### Chairman

**(David Lowden)**

Leadership of the Board and ensuring its effectiveness on all aspects of its roles. This includes:

- Ensuring there is effective communication between the Board, management, shareholders, and the Group's wider stakeholders, while promoting a culture of openness and constructive debate;
- Ensuring that the views of all stakeholders are taken into consideration in the Board's decisions;
- Promoting the highest standards of corporate governance;
- Setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues;
- Ensuring that directors receive accurate, timely and clear information; and
- Overseeing the annual Board performance review and addressing any actions.

#### Senior Independent Director

**(Georgina Harvey)**

The responsibility of this role includes:

- Acting as a sounding board for the Chairman on Board-related matters;
- Chairing meetings in the absence of the chairman;
- Acting as an intermediary for other directors when necessary;
- Leading the evaluation of the Chairman's performance;
- Being available to shareholders who wish to discuss matters which cannot be resolved otherwise; and
- Leading the search for a new Chair, when necessary.

#### Independent Non-Executive Directors

**(Georgina Harvey, Brian McArthur-Muscroft, Nneka Abulokwe and Neelam Dhawan)**

The responsibility of this role includes:

- Providing effective and constructive challenge to the Board;
- Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance;
- Reviewing Group financial information and ensuring there are effective systems of governance, risk management and internal controls in place;
- Determining appropriate levels of remuneration of executive directors; and
- Having a prime role in appointing executive directors, and in succession planning.

Nneka Abulokwe has been appointed as the designated non-executive director for colleague engagement.

#### Chief Executive Officer

**(Adolfo Hernandez)**

The role of CEO is separate from that of Chairman to ensure that no one individual has unfettered powers of decision making. The CEO has responsibility for:

- The day-to-day running of all aspects of the Group's business;
- Developing and implementing the Group's strategy;
- Ensuring the effective implementation of Board decisions;
- Leading the Group's executive team; and
- Representing the Group to external stakeholders.

#### Chief Financial Officer

**(Tim Weller)**

The responsibility of this role includes:

- Supporting the CEO in developing the Group's strategy and its implementation;
- Representing the Group to external stakeholders;
- Ensuring that the Group has the appropriate financing structure and internal controls over financial reporting; and
- Oversight of the following key functions: Finance, Investor Relations, Internal Audit and Risk Management, Tax, Treasury, Insurance and Commercial.

#### Chief General Counsel & Company Secretary

**(Claire Denton)**

Claire is available to all directors and is responsible for ensuring that all Board procedures are complied with. Claire has direct access and responsibility to the chairs of the standing committees and open access to all directors, and is secretary to the Board and all its committees.

Claire meets regularly with the Chairman and committee chairs and briefs them on areas of governance and committee requirements.

Independent advice: 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.

## I Corporate governance report *continued*

### Board composition at:

	1 January 2023	31 December 2023	5 March 2024 (the date of this report)
<b>Chairman</b>	David Lowden <sup>1</sup>	David Lowden	David Lowden
<b>Chief Executive Officer</b>	Jon Lewis <sup>2</sup>	Jon Lewis <sup>2</sup>	Adolfo Hernandez <sup>2</sup>
<b>Chief Financial Officer</b>	Tim Weller	Tim Weller	Tim Weller
<b>Senior Independent Director</b>	Georgina Harvey	Georgina Harvey	Georgina Harvey
<b>Independent Non-Executive Director</b>	Nneka Abulokwe	Nneka Abulokwe	Nneka Abulokwe
	John Cresswell <sup>3</sup>	–	–
	Neelam Dhawan	Neelam Dhawan	Neelam Dhawan
	Brian McArthur-Muscroft	Brian McArthur-Muscroft	Brian McArthur-Muscroft
	–	Claire Miles <sup>4</sup>	–
<b>Employee Director</b>	Janine Goodchild <sup>5</sup>	Janine Goodchild	–

- David Lowden was independent on appointment as chairman in accordance with the Code.
- Jon Lewis retired as CEO and a director on 17 January 2024, with Adolfo Hernandez appointed as CEO and a director on that date.
- John Cresswell retired as a director on 31 March 2023, having served seven years as a non-executive director.
- Claire Miles was appointed as a non-executive director on 12 May 2023 and stepped down as a director on 31 December 2023 following her appointment as chief executive officer of Stagecoach. Claire advised the board that due to her new executive position she did not consider that she would have sufficient time to dedicate to Capita to appropriately perform her role as a director.
- Janine Goodchild stepped down as Employee Director on 31 December 2023. Further information is provided on page 67.
- Further information on these changes and the Company's compliance with Code Provision 5 regarding the Board's engagement with colleagues is provided in the Nomination Committee report on pages 79 to 83.

### Directors' interests

The interests of directors and their immediate families, who served during the year in the shares of the Company, together with details of executive directors' share options, are contained in the Directors' remuneration report set out on pages 96 to 118.

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

### Board meetings and attendance.

During 2023, the Board held seven scheduled meetings. The Board also held an in-depth strategy session in Leeds, England where Directors met with clients and colleagues. Additional ad hoc meetings were held as required. In 2023, these included several meetings in relation to and following the cyber incident on 31 March 2023 which was a principal focus for the Board. Meetings held outside the normal schedule need to be flexible and are principally held by video conference.

Attendance of the directors at scheduled Board and committee meetings is shown below; the maximum number of meetings a director could attend is in brackets.

	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee	ESG Committee
David Lowden	7/(7)	N/A	N/A	4/(4)	6/(6)
Jon Lewis <sup>1</sup>	7/(7)	N/A	N/A	1/(1)	N/A
Tim Weller	7/(7)	N/A	N/A	N/A	N/A
Georgina Harvey <sup>2</sup>	7/(7)	5/(5)	5/(5)	4/(4)	6/(6)
Brian McArthur-Muscroft <sup>3</sup>	6/(7)	6/(6)	5/(5)	4/(4)	N/A
Nneka Abulokwe	7/(7)	N/A	5/(5)	4/(4)	6/(6)
John Cresswell <sup>4</sup>	3/(3)	1/(1)	N/A	0/(1)	3/(3)
Neelam Dhawan <sup>5</sup>	7/(7)	6/(6)	4/(5)	4/(4)	N/A
Janine Goodchild	7/(7)	6/(6)	N/A	N/A	6/(6)
Claire Miles <sup>6</sup>	7/(7)	3/(4)	N/A	1/(2)	2/(3)

- Jon Lewis recused himself from three Nomination Committee meetings during the year which considered succession planning for the role of CEO.
- Georgina Harvey was appointed as a member of the Audit and Risk Committee on 31 March 2023.
- Brian McArthur-Muscroft was unable to attend one Board meeting due to a late change in the Board meeting schedule which coincided with a prior business engagement.
- John Cresswell stepped down from the Board and its Committees on 31 March 2023. He did not attend one Nomination Committee meeting during the year, recusing himself as this dealt with the appointment of his successor.
- Neelam Dhawan was unable to attend one Remuneration Committee meeting due to a change in meeting date which conflicted with a prior business engagement.
- Claire Miles joined the Board and the Remuneration, Audit and Risk, and ESG Committees on 12 May 2023. She was unable to attend one Audit and Risk Committee, Nomination Committee and ESG Committee meeting due to a previous business commitment which had been scheduled prior to her appointment as a director.

Any director's absence from Board or committee meetings was previously agreed with the Chairman of the Board or relevant committee and the CEO. Where possible the Chairman or committee chair will contact the director who is unable to attend the meeting to obtain their comments on Board and committee papers prior to the meeting. The Board and Committee agendas ensure that discussion is focused on key strategic issues and responsibilities, as well as reviews of significant issues arising during the year.

The chairman and non-executive directors held a closed session without management present at the end of several scheduled 2023 Board meetings. Throughout the year, Directors also devoted time to interviewing candidates for both executive and non-executive roles. The Chairman also held one-to-one individual review sessions with each executive director and each non-executive director.

## I Corporate governance report *continued*

### Board effectiveness

The Board carries out effectiveness reviews annually.

The last external evaluation was undertaken by Independent Evaluation in 2021. Internal evaluations were performed during 2022 and 2023 and it is expected that the 2024 evaluation will be undertaken by an external party.

Key findings of the evaluation performed in 2022 are set out below together with actions taken during 2023:

Finding from 2022 evaluation	Action in 2023
<b>Strategy</b> – although noting the regular presentations from the chief executives (CEs) of Public Service and Experience, additional focus was requested by the Board on the divisions' strategic focus on digital solutions and margin improvements	During the year presentations to the Board from the CEs of Public Service and Experience included strategic focus on digital solutions and margin improvements. The Board discussed and debated these matters with the divisional CEs during Board meetings and the annual strategy meeting.
<b>Stakeholders</b> – the Board noted that further interaction with both clients and senior management would be beneficial.	During the year several members of the senior management team below the Executive Team level presented to the Board and/or its committees. The Board also attended a site visit to Leeds in September 2023, and met with all members of the Experience senior leadership team, colleagues working at call centres and clients.

The 2023 Board evaluation, and the evaluation of its committees, was undertaken internally by the completion of a questionnaire by each director, followed by a one-to-one meeting with the Chairman. The Board received a report from the Chairman on the outcome of the evaluation, including formal recommendations which were discussed and approved by the Board. Committee feedback was presented to the relevant committee chair. The Chairman was assisted in this process by Claire Denton, Chief General Counsel and Company Secretary.

Overall, the performance of the Board and its committees was viewed positively with progress made across many areas. Directors found Board and Committee meetings to be open and constructive. The relationship with the executive was seen positively, with their addressing of key issues recognised and their openness appreciated. The Board also considered its constitution and whether other options should be considered in relation to the Board's engagement with colleagues. Further information is included on page 72.

### The following four principal areas were identified for actions:

Principal areas identified for action in the 2023 Board evaluation	Proposed action in 2024
<b>Stakeholders</b> – The Board requested: <ul style="list-style-type: none"> <li>• additional focus on client feedback.</li> <li>• greater exposure of key supplier relationships.</li> <li>• increased interaction with colleagues (see below).</li> </ul>	The Executive Team will ensure that the Board receives additional client feedback, and has greater information on key supplier relationships and increased interaction with colleagues.
<b>Wider engagement with colleagues</b> <ul style="list-style-type: none"> <li>• The Board agreed that following the streamlining of the Group, the Board should have broader engagement with colleagues to include site visits by individual directors.</li> </ul>	Site visits to various locations will be arranged for directors during 2024, who will then provide feedback to the Board.
<b>Board meeting support</b> – The Board requested further improvement in the quality of Board papers and formalisation of the process to review previous key decisions made by the Board. <ul style="list-style-type: none"> <li>• The Board requested that the Company focused on certain strategic matters for the future to achieve its strategic priorities and improved financial performance.</li> <li>• The Board noted that the incoming CEO would require appropriate support.</li> </ul>	The Chairman has discussed these matters with the Chief General Counsel and Company Secretary and actions have been undertaken to improve Board meeting support.  Specific issues are being progressed by the new CEO together with relevant members of the Executive Team.  A full onboarding programme was developed for Adolfo Hernandez who joined Capita as CEO on 17 January 2024. Adolfo has met, or will meet, with members of the Cabinet Office, representatives of major clients, certain major shareholders, senior management, and colleagues including visiting Capita's overseas locations in India, South Africa, and Germany.

An update on the 2024 actions will be provided in the Company's 2024 Annual Report.

## I Corporate governance report *continued*

### 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 Team 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. 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 and directors' roles are set out above. 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.

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. The Company's s172 statement together with principal decisions of the Board during 2023 is on pages 45 to 48.

### Stakeholder engagement

As highlighted by the Code, the Board recognises the importance of identifying its key stakeholders and understanding their perspectives and values. Through regular dialogue and communication, the Board is mindful of all of Capita's stakeholders when planning or making decisions of strategic significance.

During 2023, the Board complied with Code Provision 5, engagement with the workforce, through its Employee Director, Janine Goodchild, who was appointed to the Board on 1 June 2022. The Board has valued Janine's contribution. In December 2023, the Board agreed that while having an employee director on the Board had been successful this was not suitable for the business going forward, and that instead the Board should ensure that there is broader engagement with colleagues. In this respect, the Board has appointed Nneka Abulokwe as designated non-executive director for colleague engagement. In addition, it has been agreed that directors will visit different sites during the year to meet with colleagues. Further information is provided on page 80. In September 2023, the Board met with clients and spoke to colleagues in some of the call centres managed by Capita, based in Leeds, on behalf of customers in the telecommunications sector. Photographs from this visit are included in this report. Following his appointment as CEO on 17 January 2024, Adolfo Hernandez has held a series of breakfast meetings with colleagues at various Capita locations.

There is an active engagement programme with the Company's investors. The executive directors meet regularly with institutional shareholders to discuss and obtain feedback on the business, performance, strategy, capital structure and allocation 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. This engagement included presentations to institutional shareholders and analysts following the release of the Group's half and full-year results (available on the Group's website [www.capita.com](http://www.capita.com)). Our Chairman, David Lowden, and Georgina Harvey, Senior Independent Director, also met with a number of institutional shareholders during the year.

Topics discussed in investor meetings included the cyber incident, free cash flow generation, remuneration structure, operating margin improvement and the nomination committee's process for appointment of the new CEO.

The investor relations team has day-to-day responsibility for managing investor communications and always acts in close consultation with the Board. The Director of Investor Relations and representatives from the Company's brokers, Deutsche Numis and Barclays are invited to attend Board meetings during the year to provide investor feedback. The Investor Relations team also arranged specific ESG engagements with investors. 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. Analysts reports concerning Capita are circulated to the directors and the Board is kept informed of changes in the share register.

At the 2023 AGM, all resolutions were passed, with every resolution receiving more than 95% of votes cast in favour. The Board is grateful to shareholders for their continued support.

At the 2024 AGM the Company will be seeking approval of its directors' remuneration policy. In developing the policy, Georgina Harvey, chair of the Remuneration Committee, has engaged with our major shareholders and key proxy advisory bodies. Further information is included in the Directors' remuneration report on pages 99 to 107.

**+** Further information on how the Board has engaged with its key stakeholder groups can be found on pages 45 to 48

## I Corporate governance report *continued*

### Annual general meeting

Shareholders are encouraged to attend the AGM. The 2024 AGM of the Company will be held at Capita's offices at 65 Gresham Street, London EC2V 7NQ on 21 May 2024. Details of the meeting format and the resolutions to be proposed are set out in the Notice of Meeting, which will be sent to shareholders with the 2023 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](http://www.capita.com).

The directors consider that each of the resolutions to be proposed to shareholders is in the best interests of the Company and the shareholders as a whole and recommend that shareholders vote in favour of all the resolutions.

The Chairman, Senior Independent Director and Committee chairs are expected to attend the 2024 AGM and will be available to answer any questions from shareholders.

### Shareholder communications

In addition to the AGM, shareholders can access up-to-date information through the Group's website at [www.capita.com](http://www.capita.com). Shareholders can also view their holdings by using the Signal shares shareholder portal, a service offered by Link Group, the Group's registrar, at [www.capitashares.co.uk](http://www.capitashares.co.uk). The Signal shares portal is an online service enabling shareholders to easily access and maintain their shareholding online. Shareholders can also contact Link by email at [shareholderenquiries@linkgroup.co.uk](mailto:shareholderenquiries@linkgroup.co.uk). Link also provides a telephone helpline, 0371 664 0300, calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, 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 engaging with our stakeholders section on pages 45 to 48.

### Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 96 to 118.

### 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 ARC 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 57 to 59.

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 emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. A description of those principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated, is set out on pages 58 to 63.

## I Nomination Committee report

# Nomination Committee report



“Board succession planning has been an important area of focus for the Committee during 2023”

**David Lowden, Chair,  
Nomination Committee**

### Principal role and responsibilities

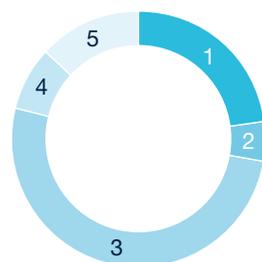
As set out in the terms of reference, which are available on the Company’s website, [www.capita.com](http://www.capita.com), the Nomination Committee is responsible for a number of key matters, including to:

- Identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the 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, its committees and the leadership requirements of the Group under review and ensure that plans are in place for orderly succession and appointment to the Board.
- Consider the independence, time commitment and performance of the Non-Executive Directors.
- Oversee development of a diverse pipeline for succession to the Executive Team.

### Areas of focus in 2023

- Succession planning for the Chief Executive Officer.
- Recruitment and appointment of an independent non-executive director.
- Review of diversity and inclusion activities and measures.
- Review of senior management talent and Executive Team succession planning.
- Consideration of the contributions and effectiveness of the Non-Executive Directors seeking re-election at the 2023 AGM.
- Reviewing the constitution of the Board.
- Reviewing the skills and experience of the directors and their other commitments.

### Nomination Committee time allocation



1. Board appointments	23%
2. Employee director appointments	5%
3. Succession planning	51%
4. Diversity	8%
5. Governance	13%

The time allocation chart is provided for guidance only and other matters were also considered by the committee.

## I Nomination Committee report *continued*

### Dear Shareholder,

On behalf of the Nomination Committee (the Committee), I am pleased to present this report, which describes how we carried out our responsibilities during 2023. The Committee met four times during the year.

### Board succession planning

Board succession planning has been an important area of focus for the Committee during 2023.

As noted in my introductory statement, Jon Lewis informed the Board during 2022 that he was interested in exploring his future options, including eventual retirement from Capita. As Chair of the Committee, and with the support of our Chief People Officer and my fellow Committee members, I led the recruitment process for a new CEO, assisted by search firm Lygon Group. On 31 July 2023, following the conclusion of the process, we were delighted to announce the appointment of Adolfo Hernandez as Capita's new CEO. Adolfo has an excellent track record in accelerating revenue growth driven by digital services. Adolfo joined the Company as CEO and a Director of Capita on 17 January 2024, with Jon stepping down from the Board on that date. Jon will remain in the business until July 2024, to ensure an orderly transition. Further information on the appointment process is provided on page 81.

During the year and following John Cresswell's retirement from the Board on 31 March 2023, having served as a director for more than seven years, the Committee recommended the appointment of Claire Miles as an Independent Non-Executive Director. In our consideration of this appointment, we concentrated on identifying candidates who would add to the collective skills, experience, and diversity of the Board to improve our ability to support and challenge management as Capita develops and evolves. Further information on the appointment process is provided on page 82.

### Board changes

On 7 December 2023, the Company announced that Claire Miles would step down from the Board on 31 December 2023. Claire's decision followed her appointment as chief executive officer of Stagecoach, Britain's largest bus and coach operator on 4 October 2023. Claire advised the Board that due to her new executive role she would be unable to dedicate sufficient time to enable her to contribute to Capita appropriately. While disappointed that Claire was unable to remain on the Board, the Committee understood Claire's reasoning. The Committee itself annually assesses the external commitments of each director to ensure that they have sufficient capacity to fulfil their obligations to the Board and its committees and to ensure that no director is over-boarded.

### Board composition

In December 2023, the Committee in conjunction with the Board, reviewed the Board's constitution to ensure that it continues to be appropriate. The Board concluded that while having employee directors on the Board had been successful, this was not suitable for the business going forward, and that instead the Board should ensure that there is broader engagement with colleagues. Consequently, it was recommended to the Board that Janine Goodchild should step down as Employee Director and member of the Board on 31 December 2023. The Board now constitutes seven directors, comprising the Chairman, two Executive Directors (the CEO and the CFO) and four Independent Non-Executive Directors, which the Board deems appropriate for the business. Following Janine's resignation, and on the recommendation of the Nomination Committee, the Board appointed Nneka Abulokwe as the designated non-executive director for colleague engagement.

During 2023, we also reviewed the talent pipeline for the Executive Team and completed our annual governance processes.

Further details of the Committee's responsibilities and work undertaken by the Committee during 2023 are included in the Nomination Committee report. I hope you will find this informative.

### David Lowden

Chair

Nomination Committee

5 March 2024

## I Nomination Committee report *continued*

### Nomination Committee members

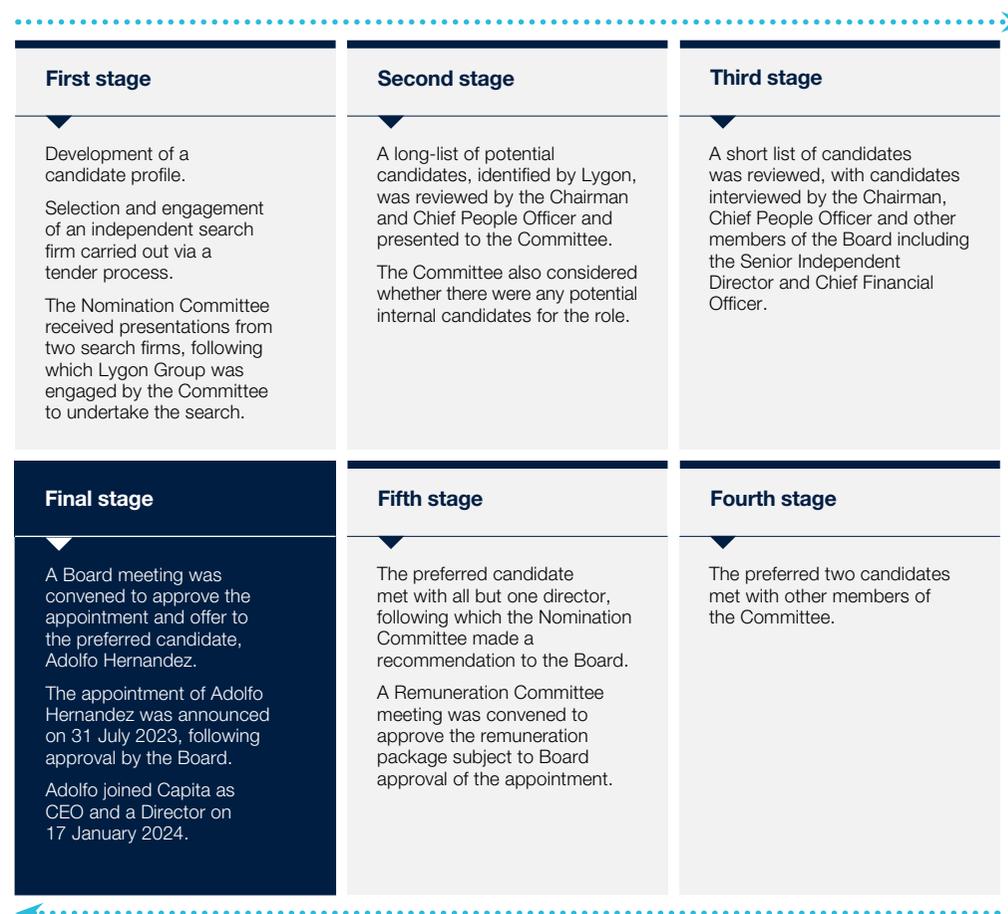
Member	Member since	Date of retirement from the Committee (if applicable)
David Lowden (Chair)	1 January 2021	
Jon Lewis	1 July 2022	17 January 2024
Adolfo Hernandez	17 January 2024	
Georgina Harvey	1 October 2019	
Nneka Abulokwe	1 February 2022	
John Cresswell	17 November 2015	31 March 2023
Neelam Dhawan	1 March 2021	
Brian McArthur-Muscroft	1 June 2022	
Claire Miles	12 May 2024	31 December 2023

### Board changes

The appointment of our new CEO, Adolfo Hernandez, was a key area of focus for the Committee during 2023. In addition, we continued to focus on the evolution of the Board and, prior to the retirement of John Cresswell on 31 March 2023, identified a need for an additional Non-Executive Director who was an accomplished, growth-oriented business executive and leader. Board appointments are made on merit, taking account of the specific skills, experience, knowledge and independence needed to ensure a rounded board. We seek to ensure a minimum of 40% female representation on recruitment shortlists and, where appropriate, 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.

### Recruitment of the CEO

The Committee was assisted in the search for a new CEO, which was led by the Chairman, by the search firm, Lygon Group, which has no connection to the Company or individual Directors. Lygon Group was not engaged by the Company for any other purpose during 2023. The search process was conducted as follows:



A detailed induction plan was created for Adolfo focusing on building his understanding of the business.

## I Nomination Committee report *continued*

### Non-Executive Director appointment

To assist with the recruitment of a new Non-Executive Director, following John Cresswell's decision to retire, the Committee appointed search firm Spencer Stuart, which has no connection to the Company or individual Directors. The Committee reviewed the skills matrix of the directors which is updated annually, and a candidate profile was developed to address any identified gaps and to complement the needs of the business and the Board as a whole. Spencer Stuart was not engaged by the Company for any other purpose during the year. Having considered the shortlist, the Chair and fellow committee members interviewed the preferred candidates and recommended the appointment of Claire Miles to the Board for approval. The Committee further recommended that, on appointment to the Board, Claire was appointed as a member of the Audit and Risk, Nomination and ESG Committees.

The appointment of both Adolfo and Claire involved a formal, rigorous, and transparent appointment process based on merit and objective criteria, with due consideration being given to a broad range of factors such as diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, and the Group's future strategic direction.

### Board of directors' induction and training

All new directors are provided with a robust induction, tailored to suit their individual needs. This is an invaluable step to not only support directors in meeting their statutory duties, but also gives them a comprehensive introduction to the business and its strategic priorities.

Ongoing training and briefings are also given to all directors, including external courses as required. In addition, all directors are required to undertake online training on the Company's Code of Conduct and cyber and information security awareness, which are also mandatory for all Group employees.

### Induction case study – Claire Miles

Claire Miles was appointed to the Board on 12 May 2023. The Company Secretary assisted the Chairman with the preparation and delivery of a tailored and comprehensive induction programme, designed to give Claire a thorough overview and understanding of our business with a focus on the Group's strategy, and wider business objectives. The induction sessions, which were principally virtual, provided Claire with an opportunity to meet with senior management and advisers and build an understanding of the key areas of focus for the Board, its committees, and the Group. The induction programme was complemented by the Board site visit to Leeds in September 2023, which included presentations by members of the Experience senior management team, meetings with clients and with the wider workforce.

#### After 17 April 2023 (the date of the announcement of Claire's appointment)

Claire was provided with a comprehensive pre-read, including previous Board and relevant Committee papers

#### 12 May 2023

Claire was formally appointed to the Board, Audit and Risk, Nomination and ESG Committees

#### May/June 2023

Claire met with senior executive and functional heads (principally on a one-to-one basis) to provide her with an understanding of the Group's operations, culture, and values. This included meetings with all members of the Executive Team, the Director of Investor Relations and the Group Director of Financial Control

Meetings with the Director Internal Audit and Risk, the external auditor and external legal counsel

#### September 2023

Site visit in Leeds, meetings with clients and colleagues

## I Nomination Committee report *continued*

### Diversity and inclusion

Capita's diversity and inclusion policy is based on a commitment to creating an environment where diversity is valued and respected. 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 communities in which Capita operates. We have met the FCA's target of 40% female representation on the Board and with regards to ethnicity, at least one person of colour, in respect of accounting periods beginning on or after 1 April 2022. 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. Further information on actions taken to address diversity, inclusion and wellbeing across the workforce is in the responsible business section on pages 32 to 37.

### Disclosures required under the Financial Conduct Authority's Listing Rule 9.8.6(9)

At 31 December 2023 (being the reference date selected by the Board for the purposes of this disclosure), the Company complied, as detailed below, with the regulatory targets set out in Listing Rule 9.8.6(9).

- The Board was 56% female (43% female at 5 March 2024, the date of this Annual Report, following Claire Miles and Janine Goodchild stepping down from the Board on 31 December 2023);
- The Senior Independent Director (Georgina Harvey) is female; and
- The Board had two Directors from a minority ethnic background.

The Board continues to comply with Listing Rule 9.8.6(9) at 5 March 2024, the date of this report, and it is expected that it will comply on 21 May 2024, the date of the Company's 2024 Annual General Meeting. Further details of the Company's compliance with LR9.8.6(R) at 31 December 2023 and 5 March 2024 are provided on pages 36 and 69.

While Capita has exceeded the FCA's 40% target for female representation at Board level, with female representation among senior management and direct reports at 40% at 31 December 2023, the Board recognises that there is still more to do throughout the organisation.

At 31 December 2023, female representation on the Board was 56% and among senior management<sup>1</sup> was 29%. At 31 December 2023, ethnically diverse representation on the Board and among senior management<sup>1</sup> was 22% and 14% respectively. Further disclosures on our gender and ethnicity diversity and how percentages are calculated and information collated is provided on page 36.

1. The 2018 Code defines senior management as the Executive Team and the Group Company Secretary. Claire Denton, Chief General Counsel and Company Secretary, is a member of Capita's Executive Team.

### Succession planning and Board composition

A formal succession framework is in place for the Executive Team 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 in improving 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.

### Board evaluation

Details of the annual Board evaluation process are provided in the Chairman's report on page 76.

I ESG Committee report

# ESG Committee report



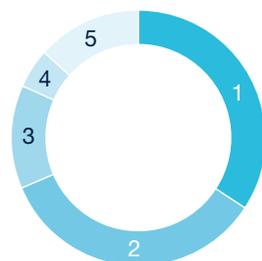
“During the year, the committee focused on responsible business challenges, and providing additional strategic oversight, accountability, and guidance”

David Lowden, Chair, ESG Committee

## Overview

The ESG Committee (the Committee) met six times during 2023. David Lowden acts as ESG Committee chair. Other members of the Committee are Georgina Harvey and Nneka Abulokwe, Independent Non-Executive Directors. John Cresswell and Janine Goodchild stepped down from the committee on 31 March 2023 and 31 December 2023, respectively. Claire Miles was appointed as a member of the Committee on 12 May 2023 and stepped down on 31 December 2023 when she resigned as a director.

## ESG Committee time allocation



1. Governance/regulatory	34%
2. Employee-related issues including diversity and inclusion	34%
3. Net zero	13%
4. ESG-related bonus targets	5%
5. Strategy	13%

The time allocation chart is provided for guidance only and other matters were also considered by the Committee.

## Responsibilities and activities

### Key responsibilities

- Oversee the development of the Group’s responsible business strategy and monitor its performance in respect of ESG-related matters on behalf of the Board.
- Oversee and monitor the Group’s progress against its net zero strategy.
- Review diversity and inclusivity data and approve the Group’s gender and ethnicity pay gap report.
- Review and approve the Group’s modern slavery statement.

### Activity in 2023

#### Net zero:

- Reviewed the Task Force on Climate-related Financial Disclosures for inclusion in the Capita 2022 Annual Report.
- Reviewed the Group’s net zero emissions and draft low carbon transition plan.

#### Liaison with the Remuneration Committee on ESG-related targets:

- Reviewed and recommended to the Remuneration Committee ESG-related bonus targets for 2023.

#### Approval of external ESG communications:

- Reviewed the our people and responsible business sections of the 2022 Annual Report.
- Reviewed and approved the 2022 responsible business report for publication.

#### Policies and procedures:

- Reviewed and approved Capita’s supplier charter and considered how net zero was assessed and monitored within the Group’s supply chain.

- Reviewed and approved the Company’s modern slavery statement on behalf of the Board.
- Reviewed the Group’s Speak Up policy.

#### Strategy:

- Considered Capita’s responsible business strategy.
- Considered Capita’s ESG strategy and governance structure.
- Considered stakeholder feedback from shareholders, customers and regulators.

#### Our people:

- Received a presentation on Capita’s safeguarding policy, including SafetyNet, a Capita specific team and process designed to support Capita’s most vulnerable colleagues.
- Received a presentation on diversity and inclusion at Capita, including gender and ethnicity pay gap reporting.
- Received feedback on the response to the 2023 employee surveys.

#### Governance

- Discussed the outcome of the annual evaluation of the Committee.
- Reviewed the terms of reference of the Committee.

## I ESG Committee report *continued*

### Dear shareholders,

I am pleased to present this report on the first full year of the Committee following its formation in June 2022.

### Role of the Committee

The Committee oversees Capita's conduct as a responsible business. During the year, it focused on responsible business challenges, and providing additional strategic oversight, accountability and guidance.

### Focus of the Committee

This Committee provides a forum within which all components of Capita's responsible business strategy can be considered on a regular basis. During the year, it focused on the following matters:

#### Diversity & inclusion

The Committee reviewed and approved the Group's 2023 UK gender and ethnicity pay gap report. 2023 was the third consecutive year that Capita voluntarily published its ethnicity pay gap. We believe that analysing diversity data and being transparent about the diversity of our workforce is an important step in moving towards a fairer, more inclusive workplace.

The Committee was pleased to note that our gender pay gap had improved, with a 5% reduction compared with 2022, the largest improvement since we commenced reporting on the gender pay gap. This is the result of several years of work within Capita to increase the number of women working in our senior leader roles. The committee recognises that there is more to do but is proud that our global workforce comprises 50% of females. We were also proud to note that Capita was ranked 18 out of 400 on the Forbes global list of top employers for women.

We noted that our ethnicity pay gap increased during 2023. While high volumes of recruitment have served to increase the representation of ethnic minority talent in our business, this has primarily been in more junior and lower paid positions. Capita continues to focus on attracting diverse senior talent, and most importantly, on growing, developing and promoting diverse talent from within.

The Committee considered the initiatives undertaken to improve this position, including our RISE (reduce inequality strive for equality) programme and our EmbRACE employee network group, which aims to address disparity of opportunity and support the progression of those who aspire to move into their first manager role.

While pleased with the progress made within the Group on diversity and inclusion matters, the Committee recognises that there is more work to be done. We are supportive of the update report from the Parker Review, and our Executive Team is considering ethnicity targets for senior management. This will remain a key area of focus. We will provide an update on progress made in these areas in our 2024 report.

#### Wellbeing of our colleagues

The health, safety and wellbeing of all our colleagues is a priority for the Committee and the Company. The Committee received a presentation from the Senior Medical Officer detailing Capita's safeguarding policy and our SafetyNet initiative, which continues to provide much needed expert guidance to our human resources representatives and line managers supporting colleagues with complex issues related to wellbeing, safeguarding or vulnerability.

#### ESG-related bonus targets

We worked closely during the year with the Remuneration Committee on ESG-related bonus targets, both reviewing the outturn of the ESG-related targets included in the 2022 management bonus plan and reviewing ESG targets for the 2023 management bonus plan, making recommendations to the Remuneration Committee. These include traditional measures, such as employee engagement, as well as targets that address broader societal concerns, such as climate change, consistent with the Board's responsibility to all stakeholders. Further details are provided in the Directors' remuneration report on pages 96 to 118.

#### Supplier charter

The Committee reviewed and approved Capita's supplier charter. Our review included an in-depth discussion on how our suppliers assess and manage the impact of their business during their transition to net zero, particularly noting that there is often a disproportionate financial impact on SMEs compared with our larger suppliers. We noted that Capita's smaller suppliers may need more support during the transition to achieve full net zero.

## I ESG Committee report *continued*

### Net zero target

In early 2024, the Committee considered and approved a proposal from management to update our targets to become fully net zero by 2045. This recognised that a significant amount of our carbon emissions originate from our supply chain and that by extending our target by ten years we have additional time to engage with our suppliers and work with them to reduce their environmental impact. Capita is currently working with the Science Based Target initiative (SBTi), the globally recognised body for climate-related target setting, to validate our new targets.

As a Committee we have also approved a three-phased approach to full net zero, aiming to reach operational net zero by 2030; operational and business travel net zero by 2035; and full net zero by 2045.

Further details of our proposals which are subject to validation with the SBTi are detailed in the Responsible business report on pages 40 to 42.

### Other matters

During the year, the Committee also addressed a range of other strategic and current issues including the results of our employee surveys, and discussed the initiatives that are being undertaken by Capita in these areas. We considered and approved the Group's modern slavery statement on behalf of the Board and assessed our Speak Up policy, concluding that following its relaunch in 2022 the policy was operating effectively.

### Going forward and Committee chair

The Committee recognises the need for Capita to respond to a rapidly changing external environment including the difficult economic environment, which impacts the way we operate.

In December 2023, we reviewed our refreshed responsible business principles to ensure that they focus on the areas of greatest concern to the Group, including making sure that we have the appropriate governance structure, reporting processes and risk management. During this review, the Committee considered stakeholder views and feedback, including from shareholders, customers and regulators.

Capita's updated responsible business principles will be published later in 2024. We look forward to reporting more on these matters and the progress made.

Following the appointment of Nneka Abulokwe as designated non-executive director for colleague engagement, it was also proposed by the Nomination Committee that Nneka takes on the role of ESG Committee chair on 6 March 2024, following the announcement of Capita's 2023 full year results. This is a natural evolution of the roles of our independent Non-Executive Directors, with Brian, Georgina and Nneka acting as chairs of the Audit and Risk, Remuneration and ESG Committees respectively. I will remain a member of this Committee.

#### David Lowden

Chair

ESG Committee

5 March 2024

## I Audit and Risk Committee report

# Audit and Risk Committee report



“Following the decision by the Board and the Committee to focus on optimising the existing finance reporting systems, further progress has been made in improving the Group risk and control framework and financial controls”

**Brian McArthur-Muscroft, Chair,  
Audit and Risk Committee**

### Overview

The Audit and Risk Committee’s (the 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/about-capita/corporate-governance](http://www.capita.com/about-capita/corporate-governance). The terms of reference are reviewed annually and updated as required.

### 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 Company’s shareholders and to monitor the integrity of financial statements, including the application of key judgements in determining reported outcomes, to ensure they are fair, balanced and understandable.

#### Risk management, internal control and compliance

To review and assess the adequacy of 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.

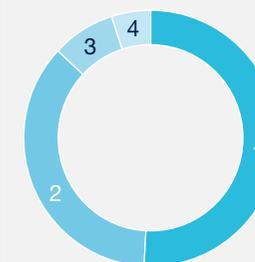
#### External audit

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.

#### Effectiveness

To report to the Board on how it has discharged its responsibilities.

### Audit and Risk Committee time allocation



1. Risk management, internal control & compliance	51%
2. Financial reporting (incl. external audit)	36%
3. Private meetings with auditors	8%
4. Governance	5%

The time allocation chart is provided for guidance only and other matters were also considered by the Committee.

## I Audit and Risk Committee report *continued*

### Risk and control framework

The Committee continued 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 system of risk management and internal controls, and overseeing the activities of the Group's internal audit function and its external auditor.

As noted below, further progress was made in strengthening the Group's controls. In addition, as in the prior year, a key control questionnaire process was completed across the Group where business leaders attested to compliance with key controls. This enables management to focus attention on control areas that need improvement.

Further detail on the risk management and internal control environment is set out later in this report on pages 94 and 95.

### Controls improvement

Following the decision by the Board and the Committee to focus on optimising the existing finance reporting systems, further progress has been made in improving the Group risk and control framework and financial controls. These programmes have continued to focus on the simplification of finance activities and controls, continuing to embed the enterprise risk management framework, and further rationalisation of the overly complex legal structure. Key improvements in 2023 include: designing standard access rights to key systems; documenting the key risks and controls over financial reporting, considering significant fraud risks; and independent testing by Group Internal Audit of the design effectiveness of those key financial controls. In addition, the legal entity rationalisation programme progressed well during the year with the number of legal entities in the Group being reduced by 50. At 1 January 2024, the Group had 130 legal entities compared with 369 in July 2018. The rationalisation programme is ongoing, and the number of legal entities will be significantly below 100 by the end of 2024. Further improvements to the Group risk and control framework are planned for 2024, including obtaining assurance of management's process of monitoring operating effectiveness of key controls. In 2023 the Group's controls activity has continued to be supported by a Speak Up policy which facilitates whistleblowing across the Group with a function dedicated to identifying, preventing and investigating where fraud concerns have been raised. This was expanded to Switzerland and Germany in 2023, completing the rollout to all geographies.

The Board and the Committee also recognise the reforms to the UK Corporate Governance Code announced in January 2024, specifically the requirement for a Board declaration regarding controls from 2026. To date, activity has prioritised those areas which were known to be within the scope of the code, specifically the identification, documentation, and testing of the design effectiveness of controls over financial reporting and significant fraud risks. The Board and the Committee are now considering the provisions of the revised code which will inform future control improvement activity.

### Committee membership and attendance

The Committee comprises myself as chair, together with Neelam Dhawan, Georgina Harvey and Nneka Abulokwe, independent non-executive directors.

During 2023 Janine Goodchild, employee non-executive director, was also a member of the Committee. Although not considered independent under the UK Corporate Governance Code 2018 (Code), Janine brought valuable insights from the employee perspective into Committee discussions and the Board considered that this was important from an employee engagement perspective. Janine stepped down from the Board and the Committee on 31 December 2023, following a review of the Board's constitution by the Nomination Committee and the Board, during which it was agreed that, although the employee director position had been successful, it would now be appropriate to adopt a wider employment engagement strategy given the more streamlined Group. Further information is provided on page 67.

John Cresswell stepped down as a director and member of the Committee on 31 March 2023.

I would like to thank John for his significant and valuable contribution to the Committee's deliberations. Georgina Harvey, Senior Independent Director and Remuneration Committee Chair was appointed as a member of the Committee upon John's departure. Claire Miles was appointed as a director and a member of the Committee on 12 May 2023. Following the appointment of Claire the Committee comprised five directors, with 80% of Committee members considered independent.

As part of her induction programme, Claire Miles met with Ian Griffiths, Audit Partner, KPMG, our external auditor, Capita's Group Director Financial Control and our Director Internal Audit and Risk. Georgina Harvey was previously a member of the Committee from October 2019 until June 2022 when the Board reviewed Committee membership. However, following the retirement of John Cresswell, it was decided to reappoint Georgina as a member of the Committee to ensure that the Committee has the requisite skills and depth necessary to discharge its duties in accordance with its terms of reference. Claire Miles stepped down from the Board and a member of the Committee on 31 December 2023, following her full-time appointment as chief executive officer of Stagecoach. Further information is provided in the Nomination Committee report on page 80. Nneka Abulokwe was appointed as a member of the Committee on 27 February 2024. From 1 January 2024, the Committee has comprised solely of independent non-executive directors.

The Committee is required to include at least one financially qualified member, this requirement is fulfilled by myself as a chartered accountant.

All other Committee members are considered financially literate given their qualifications and experience. Neelam has held senior positions in Hewlett-Packard, Microsoft, Compaq and IBM with responsibility for areas including strategy and corporate development. Georgina has significant experience across highly competitive consumer-facing markets. She is currently a non-executive director of Superdry plc and a member of its audit committee. Nneka is an adviser of Cranfield School of Management Advisory Board and was formerly an external member of the audit and risk committee of the University of Cambridge. Biographies of the directors, including their skills and experience are on page 70 to 71.

## I Audit and Risk Committee report *continued*

To encourage effective communication, in addition to the above members, the Chairman, CEO, CFO, Chief General Counsel and Company Secretary, Group Director Financial Control and Group Chief Accountant are invited to attend Committee meetings along with certain members of the senior management team, the Director Internal Audit and Risk and representatives from KPMG, the Group's external auditor. The Head of Business Integrity provides a report at each meeting to update the Committee on speak-up matters and related issues. 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 annual Board evaluation, see page 76 for more information. The Board is satisfied that the combined knowledge and experience of its members, both during the year and currently 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 Chief General Counsel and 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.

### How the Committee operates

The Committee has 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 planning meetings held in advance of the principal Committee meetings, led by me with the CFO, members of the Group Finance team and the external auditor. I also meet on a regular basis and separately with the CFO and Director Internal Audit and Risk. The purpose of these meetings 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. The Group's Chief Technology Officer and/or the Chief Information Security Officer attend every Committee meeting to provide an update on the Group's cyber and IT resilience. The Head of Business Integrity also attends every Committee meeting to provide an update on cases reported under the Group's Speak Up policy. 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 2023

The Committee held six scheduled meetings during the year and attendance at each meeting is shown on page 75. 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 on pages 90 to 92.

##### 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 the use of alternative performance measures (APMs) and whether the APMs are appropriate, including any changes to their definition in the period. The Committee also considered whether the full-year announcement was presented clearly.

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

## I Audit and Risk Committee report *continued*

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

#### Going concern and viability assessment

##### Matter considered

Consideration of the going concern assumption and viability of the Group and Parent Company is the responsibility of the Board. The Committee conducted an assessment as part of its support role, given the inherent judgements required to assist the Board in evaluating the resilience of the Group.

##### Action

The Committee considered the projections within the business plan, agreed by the Board in December 2023, and the key assumptions underpinning the future cash flow and profit forecasts. The Committee received reports from executive management and KPMG (as part of their standard reporting to the Committee in the course of performing their duty as statutory auditor) concerning the going concern and viability assessments, including the key risks identified. These included details on the key assumptions, the forecasting process, the committed facilities available, and the mitigations within direct control of the Group. The Committee also considered the risks identified and appraised the severity and plausibility of these in setting the downside scenario (see section 1 to the consolidated financial statements for details).

The Committee reviewed the disclosures presented in section 1 of the consolidated financial statements together with the viability statement on page 64 to ensure there was sufficient detail provided to explain the basis of preparation and the Board's conclusion.

##### Outcome

The Committee is satisfied that the analysis presented by executive management and KPMG provides enough detail to allow a robust assessment of relevant risks and mitigations to be undertaken. This supported full discussion of the severe but plausible downsides and allowed the Committee to recommend to the Board that the going concern assumption be applied and the viability statement be approved.

The Committee is satisfied that section 1 to the consolidated financial statements and the viability statement on page 64 include proportionate disclosures to inform users of the assessments undertaken by the Board.

#### 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 contract provisions, where appropriate, and the lifetime profitability of contracts.

To aid the reader, the company has included a 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 disclosure and concluded that these provide 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

Costs incurred to deliver a customer contract may be capitalised as contract fulfilment assets in accordance with IFRS15. 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, and when a contract is in the early years post-inception and undergoing major transformation activities, the contract fulfilment assets (CFAs) are at heightened risk of impairment. 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.

##### Action

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.

## I Audit and Risk Committee report *continued*

### 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 policy adopted and that the disclosures provide information to allow a reader to understand the risks associated with different stages of a typical long-term Capita contract.

### **Impairment of Parent Company's investment in subsidiaries, and recoverability of receivables from subsidiary undertakings in the Parent Company**

#### Matter considered

The Parent Company carries a material balance of investment in, and receivables from, subsidiaries in its financial statements. The impairment and recoverability assessments require 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 has also reviewed the robustness of the assessment of recoverability of receivables from subsidiary undertakings in the parent company and challenged the appropriateness of assumptions used to calculate and determine any provisions required.

### Outcome

The Committee considered that any impairment of investment in subsidiaries, or any provision against amounts receivable from subsidiaries, at the parent company level were appropriate and properly accounted for.

The Committee acknowledged the gap between the net assets of the Parent Company and the market capitalisation of the Company. The Committee gave consideration as to why this might be the case and whether goodwill or assets on the Parent Company balance sheet may be impaired. The factors considered included: the differing basis of valuations (including that third parties value the services sector on income statement multiples versus long-term view using a discounted cash flow for the basis of impairment testing under accounting standards), sum-of-the parts view and the multiples achieved on recent disposals, general market assumptions of the sector which can ignore the liquidity profile and specific risks of an entity, and other specific items which impact the market's view of the Group at the moment. Taking these points into consideration the Committee is comfortable that there is no impairment in respect of the net assets of the Parent Company to be recognised at 31 December 2023, despite the continuing low market capitalisation of the Company.

### Pensions

#### Matter considered

The measurement of the defined benefit liabilities 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 several other key inputs. There is a risk that any one of these could lead to misstatement of the Group's liabilities in respect of pension obligations and the pension charge or movement recognised in the income statement or statement of comprehensive income.

#### Action

The Committee 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 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.

### Deferred tax assets

#### Matter considered

The Group carries significant deferred tax assets. The recoverability assessment requires the application of judgement concerning future prospects and forecasts.

#### Action

The Committee 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 on a standalone basis as well as in the context of defined benefit schemes across other external benchmarks.

### Outcome

The Committee is satisfied with the amount of deferred tax recognised in these financial statements.

The Committee is also satisfied that the assumptions, methodology and disclosure in note 2.6 to the consolidated financial statements are sufficient to give the reader an understanding of the approach taken and the sensitivities within the assumptions that could reasonably give rise to a material derecognition of deferred tax.

## I Audit and Risk Committee report *continued*

### Costs related to the cyber incident

#### Matter considered

In March, the Group experienced a cyber incident which caused disruption to some client services. As stated in the accounting policies, Capita separates its profit between adjusted and reported to provide useful disclosure to aid the understanding of the performance of the Group. The costs arising from the cyber incident have been excluded from the adjusted operating profit and adjusted profit before tax of the Group. The Committee needs to ensure the complete identification, quantification and disclosure in the financial statements of the costs arising from the cyber incident.

#### Action

The Committee considered the nature of the costs that management have disclosed as arising from the cyber incident and the process put in place to ensure only those costs are excluded.

The Committee considered the appropriate presentation to apply for costs related to the cyber incident which are presented as an adjustment to the reported results.

The Committee reviewed the contingent liability disclosure in note 6.2 to the consolidated financial statements.

#### Outcome

The Committee concurs with management's view that the presentation of the costs related to the cyber incident as an adjustment to the reported results provides useful disclosure to aid the understanding of the performance of the Group and agrees that the items excluded meet with the stated policy for recognition. Note 2.4 to the consolidated financial statements sets out the nature of the costs excluded, and the Committee is satisfied that this provides sufficient information to inform a reader.

The Committee reviewed the disclosures within the contingent liability note. It was satisfied that the disclosure provided proportionate detail to inform a reader.

### 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 assesses their relative impact on the reported statements. These are: income statement, 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 the external auditor, the CFO and Director of Financial Control 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.

#### 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, performance and independence.

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 the 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.

## I Audit and Risk Committee report *continued*

### Audit-related services and fees

The Company's policy on auditor independence 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 not permitted. 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, and audit and other assurance services related to public reporting on other information issued by Capita, such as reports on information in the front of the annual reports not covered by the auditor's report on the financial statements). 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 £0.5m and related to the review of interim results, ISAE 3402 assurance reporting on controls operating by a subsidiary, and ISAE 3000 assurance reporting over non-financial metrics reported within the Annual Report and Accounts. Further details are provided in note 2.3.2 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; and
- 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 report highlights 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.

### FRC's Audit Quality Review of the Capita 2022 audit by KPMG

During the year, the 2022 audit of Capita plc by KPMG was reviewed by the Audit Quality Review (AQR) team. The FRC routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits and related procedures at individual audit firms. Certain matters were identified relating to how KPMG evidenced its conclusions over the work performed in two specific areas of the audit. The AQR also highlighted good practice observations in relation to KPMG's challenge over going concern and the robust evaluation of the Company's going concern assessment.

The Committee and KPMG have discussed the review findings and the agreed actions and are satisfied with responses to be implemented by KPMG in the 2023 audit. Overall, the results of the review raised no issues which cause doubt on the fundamental quality of Capita's external audit and the Committee remains satisfied with the efficiency and effectiveness of the external audit.

### 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 was first appointed in 2010, initially as KPMG Audit plc.

The lead audit partner is rotated on a five-yearly basis. The current lead audit partner rotated onto the audit following the completion of the 2021 audit in March 2022. 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 its remuneration will be determined by the Committee.

## I Audit and Risk Committee report *continued*

### Review of risk management and internal control

Responsibility for reviewing the effectiveness of the Group's risk management and internal control systems is delegated to the Committee by the Board. The principal risks and risk management processes are set out on pages 57 to 63.

### Effectiveness and efficiency of risk management

During the year, the Committee completed a robust assessment of the principal risks, including deep-dive reviews on four of the Group's principal risks. These reviews focused on principal risks related to:

- Internal controls
- People, attraction and retention
- Securing new contracts and extending existing contracts
- Delivering our contractual obligations

The principal risk assessment also considered any emerging risks that would threaten Capita's business model, future performance, solvency or liquidity. The assessment process included regular engagement with the Executive Team members accountable for the management of risk falling under their remit. As part of each deep dive, the Committee reviewed existing controls and further risk reduction actions to ensure they were valid and effective in reducing the overall risk level.

### Principal risk refresh

Capita's principal risks had remained relatively unchanged since 2019. In September 2023, the Committee reviewed the principal risk profile, given that since 2019:

- Capita has changed its business operating model, reducing from six to two divisions.
- The global Covid-19 pandemic has led to new expectations as employees continue to work from home.
- The geopolitical and political landscape has changed.
- Recession and macroeconomic uncertainty have led to customers wanting to spend less yet continue to seek value for money.
- Global supply-chain challenges, social and technological changes.

The Committee's review followed a detailed exercise by the Executive Team and members of their senior leadership teams and discussion at the executive risk and ethics committee. Further information is provided in the risk section on page 58 of the strategic report.

The Committee considered and challenged management's assessment of the revised principal risks and this matter was also discussed by the Board. Following this assessment the principal risks have reduced from 13 to nine. The Committee will continue to receive 'deep dives' from management on the nine principal risks.

The Committee received reports on the following themes during the year:

- Cyber and information security;
- IT resilience;
- Internal controls;
- Finance transformation
- Securing contracts and extending existing contracts;
- Risk of failing to deliver on our contractual obligations to our clients;
- Attracting, developing and retaining our people;
- Anti-bribery and corruption, including details of matters raised under the Group's Speak Up policy;
- Data privacy; and
- The Group's legal entity rationalisation programme.

Although cyber and information security was a standing item on the Committee's agenda prior to the cyber incident in late March 2023, the Committee has increased its scrutiny of this topic in the wake of the incident. This will remain a principal focus of the Committee for the foreseeable future. The Chief Technology Officer and/or the Chief Information Security Officer attend every Committee meeting to provide an update on the Group's cyber security maturity and receive robust challenge from Committee members.

The enterprise risk management framework and control environment continues to be enhanced and embedded across Capita in the revised operating model. The Committee concluded that risk management processes and the system of internal controls were adequate and there were no material weaknesses requiring specific disclosure. The Committee reported the conclusions to the Board to support the annual confirmation that a robust assessment of the principal risks had been carried out.

### Effectiveness and efficiency of financial controls

Detail on the status of internal financial controls is in the internal control and risk management section of this report and can be found on pages 57 to 63. As detailed on page 88 further improvements to the Group risk and control framework, including financial controls were delivered during the year.

The Committee concluded that the Group risk and control framework, including financial controls could be relied upon to be materially effective, noting that further improvements to the Group risk and control framework are planned for 2024 to ensure that financial controls are appropriately efficient for a Group of the scale and complexity of Capita.

### 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 inhouse audit team. The function is led by the Director Internal Audit and Risk who is also responsible for the Group's non-regulated business risk function. Regulated business risk is the responsibility of the CEO, Capita.

## I Audit and Risk Committee report *continued*

The 2024 plan was approved by the Committee in December 2023. The plan focuses on the following four areas: (i) risk-based cyclical audits of core 'business-as-usual' activities aligned to our principal risks; (ii) advisory reviews (iii) progressive assurance and (iv) testing of key controls documented by the functions as they strengthen their internal control framework.

Conducting cyclical audits over these risks and processes provides better insight into how risk is being managed and provides comparison across business units. The plan is structured to be flexible; to provide assurance over core 'business as usual' activities aligned to our principal risks; and, to offer continued support for ongoing change activities.

Throughout the year, the Group internal audit function provides written reports to the Committee on the work carried out to date and the in-flight work to be completed, together with oral updates. An annual report is provided each year summarising the key matters arising. Reports set out controls and process weaknesses identified during the work, together with any recommendations for action.

In all cases, management responded with appropriate actions to mitigate the associated risks. The Committee reviews management's response to the matters raised and ensures that any action is commensurate with the level of risk identified. The Committee receives regular status updates on identified actions and provides robust challenge.

As detailed in the 2022 Committee report, as a result of the consistent themes identified during audits including a lack of defined policy and procedures over key processes, responsibilities and accountabilities of roles not always clear and a lack of evidence to demonstrate monitoring and reporting of control activity, a plan was presented and approved by the Committee during 2022 to address these issues and further improve the Group's financial controls framework. The Committee received updates on the progress of this project at each Committee meeting and closely monitors the progress of this project. Further information is detailed on page 88.

Through regular interaction between the Committee and the Director Internal Audit and Risk, as well as reports received from the function, the Committee can 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 complies with the Bribery Act 2010. Procedures are reviewed periodically to ensure continued effective compliance in Group businesses around the world.

### **Code of Conduct and Speak Up**

Capita's Code of Conduct was refreshed in 2022, with the relaunch of the Group's Speak Up policy. Code of Conduct training is mandatory for all Group employees including Capita plc directors. The Speak Up policy, provides a framework for concerns to be raised in a responsible and effective manner. This ensures that concerns are addressed in a manner independent of a colleague's business area, and that concerns can be raised through a facility provided by an independent third-party provider. Where concerns are raised, they are escalated to named contact points within Capita for further assessment and investigation.

As part of the relaunch of the Speak Up policy in 2022 a 12-month Speak Up communication plan was implemented to raise awareness of this policy and stimulate engagement with employees. The number of reported cases has again increased during 2023 following this communication plan, with significant progress being made in increasing the number of reported cases to a level more representative of Capita's size and its peers.

During 2023, members of the Business Integrity team visited some of Capita's international sites, including South Africa, to reinforce and embed the Speak Up policy in these businesses. The Chief General Counsel and Company Secretary also attended some of these meetings via video-conference. The Speak Up policy has also recently been introduced in Capita's businesses in Germany following a change in legislation.

While recognising the progress made the Committee recognises that the number of reported cases is still low in certain geographies given the size of Capita and further communication will be undertaken.

This is an area of focus for the Committee, which receives a report from Capita's Head of Business Integrity and an update on the current level of reported cases at every meeting. Oversight of these arrangements is a matter reserved to the Board and I provide regular updates on the operation of the policy to the Board.

### **Brian McArthur-Muscroft**

Chair

Audit and Risk Committee

5 March 2024

Directors' remuneration report

# Directors' remuneration report



“The Remuneration Committee considers that our remuneration policy remains appropriate; following the recent appointment of our new CEO this will be kept under review”

Georgina Harvey, Chair, Remuneration Committee

**This report is split into three sections:**

- The annual statement summarises how the committee discharged its roles and responsibilities in respect of 2023 including the review of the directors' remuneration policy and pay decisions for 2024.
- The directors' remuneration policy (the policy) presents the policy which remains largely unchanged from that approved by shareholders at the 2021 AGM and will be subject to a binding shareholder vote at the 2024 AGM.
- The annual report on remuneration sets out the remuneration arrangements and incentive outcomes for the year under review and explains how the policy will be operated for 2024.

The directors' remuneration report (excluding the policy) will be subject to an advisory shareholder vote, and the policy will be subject to a binding shareholder vote, at the 2024 AGM.

**Remuneration Committee membership and attendance**

All members of the committee are independent non-executive directors. During 2023 the non-executive employee director attended committee meetings by invitation, rather than being a member of the committee. From 1 January 2024, following the decision to change the constitution of the Board, there will no longer be a non-executive employee director. The number of formal meetings held and the attendance by each member is shown in the table on page 75.

The committee also held informal discussions as required. The Chief General Counsel and 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](http://www.capita.com/investors). These are normally reviewed and updated where appropriate, on an annual basis.

**Remuneration Committee approximated time allocation**



## I Directors' remuneration report *continued*

### Annual statement

Dear shareholder,

I am pleased to present the directors' remuneration report for the year ended 31 December 2023.

The committee's focus in 2023 has been centred on:

- Reviewing our current remuneration policy as approved by shareholders at the 2021 AGM: considering the appropriate approach for 2024 and future years;
- Agreeing the remuneration arrangements in respect of Jon Lewis's retirement as Chief Executive Officer (CEO) and the appointment of Adolfo Hernandez as his successor; and
- Colleague wellbeing and development: embedding Capita pay principles, rolling out our career path framework incorporating job sizing and market-informed job pay ranges to deliver transparency on pay throughout the Group.

Details of the committee's approach to remuneration in 2023, and the proposed implementation of the policy for 2024, are set out below.

### How the committee operates

The committee has an annual agenda covering 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 affecting remuneration that may require consideration by the committee. Regular reports, including updates on 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 and ethnicity reporting, engagement on how executive remuneration aligns with wider company pay policy, salary proposals for members of the senior team and approval of remuneration packages for new members of the executive team.

During 2023, the ESG committee was responsible for making recommendations to the committee in respect of setting and assessing ESG targets in the annual bonus.

### Committee activities

The key workstreams of the committee during the year included:

- Reviewing the current policy and agreeing the approach for the policy to be put to shareholders for approval at the 2024 AGM.
- Agreeing the remuneration arrangements in respect of Jon Lewis's retirement as CEO and the appointment of Adolfo Hernandez as his successor.
- Agreeing the vesting percentage in respect of the 2020 LTIP awards for the performance period ended 31 December 2022.

- Agreeing annual bonus awards for the year ended 31 December 2022.
- Agreeing 2023 Restricted Share Award (RSA) levels.
- Agreeing the design and targets for the 2023 annual bonus.
- Determining the remuneration arrangements for senior management leavers/joiners.
- Consideration of executive pay arrangements and alignment with those for the wider workforce.
- Ongoing workforce engagement in respect of executive remuneration.
- Receiving progress updates in respect of the implementation of wider workforce strategy on pay and progression (career path framework).

In addition, the committee has ensured that the remuneration policy (current and proposed) and practices are consistent with the six factors set out in Provision 40 of the 2018 UK Corporate Governance Code (the Code):

**Clarity** – our policy is well understood by our senior management team and has been clearly articulated to our major shareholders and representative bodies (both on an ongoing basis and during the detailed consultation exercise in respect of the policy review carried out during 2023).

**Simplicity** – the committee is mindful of the need to avoid overly complex remuneration structures, which can be misunderstood and deliver unintended outcomes. A key objective of the committee is to ensure our executive remuneration policies and practices are straightforward to communicate and operate.

**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 long-term share awards; (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 and the committee's ability to use discretion to adjust vesting levels.

**Predictability** – our incentive plans are subject to annual individual limits, with our share plans also subject to a share dilution limit.

**Proportionality** – there is a clear link between individual awards, delivery of strategy and our long-term performance through performance conditions or underpins applied to the annual bonus plan and RSAs. 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, including elements of fixed pay (executive director pension provision is aligned with the workforce) and through the use of performance metrics that measure how we perform against our financial and non-financial KPIs. RSAs further increase alignment to Capita's responsible business strategy by offering a narrower range of value outcomes.

## I Directors' remuneration report *continued*

### Remuneration for 2023

A summary of the approach to remuneration in 2023 was as follows:

- There was no change in the base salary level for the CEO or the Chief Financial Officer (CFO) in 2023.
- The annual bonus operated in line with policy, with a maximum potential of 200% of salary for the CEO and 175% of salary for the CFO. The bonus was based on revenue, profit before tax and free cash flow (all equally weighted and totalling 80% of maximum bonus) and strategic/individual objectives (totalling 20% of maximum bonus).
- RSAs were granted under the Capita Executive Plan in March 2023 at 150% of salary for the CEO and 100% of salary for the CFO. Further details of the 2023 RSAs are set out in the annual report on remuneration.

#### Annual bonus for 2023

Following a review of performance against the annual bonus targets, no annual bonuses were awarded to the CEO and CFO in respect of the year ended 31 December 2023.

While revenue performance was between threshold and target, it was noted that revenue benefited from certain non-trading items, the exclusion of which would have resulted in a below threshold performance. PBT and free cash flow performance were below threshold.

In light of this financial performance, while progress was made against a number of the strategic/individual objectives, management recommended to the committee that no management bonuses should be paid for the year ended 31 December 2023 and the committee accepted this proposal. Further details in respect of the annual bonus performance assessment are set out on pages 110 and 111.

#### 2021 RSAs

The RSAs granted to Jon Lewis and Tim Weller in May 2021, which were due to vest in May 2024, will lapse in full post year end following the application of the total shareholder return (TSR) underpin.

#### Total remuneration

The committee is satisfied that total remuneration awarded to the CEO and CFO in respect of 2023 (ie fixed pay only) was appropriate in the context of the shareholder and broader stakeholder experience.

#### Use of discretion

The committee retains the right to exercise discretion to override formulaic outcomes and ensure that the level of bonus and/or share award payable is appropriate. It may also use its judgement to adjust outcomes to ensure that any payments made reflect overall Company performance and stakeholder experiences more generally. Where discretion is exercised, the rationale for this discretion will be fully disclosed to shareholders in the relevant annual report. A summary of the discretion exercised by the committee over the last four years, is set out below:

	2020	2021	2022	2023
<b>Annual bonus</b>	In light of the impact of Covid-19, the annual bonus plan was withdrawn for 2020 for the executive directors (plus the executive committee and selected senior managers) before the targets were agreed.	No committee discretion exercised.	Annual bonus awards for the CEO and CFO for the year ended 31 December 2022 were reduced from 69% to 60% of the maximum, see page 115 of the relevant annual report.	No committee discretion exercised (albeit it should be noted that the committee accepted management's proposal not to pay an annual bonus for 2023).
<b>Share awards</b>	2020 LTIP award levels were reduced by around 70% compared with normal grant levels. In addition, and to reflect underlying financial and operational performance, the committee applied downward discretion when assessing the vesting of the 2018 LTIP	2021 RSA levels were reduced from the normal policy grant level by around 17%.	The 2022 RSA level for the CEO was reduced from the normal award level of 150% of salary to 100% of salary, see page 116 of the relevant annual report.	No committee discretion exercised.

## I Directors' remuneration report *continued*

### Board changes in 2023

On 31 July 2023 Capita announced Jon Lewis's intention to retire. Jon Lewis stepped down as CEO and an executive director on 17 January 2024 although he remains an employee until July 2024 to ensure an orderly transition. Adolfo Hernandez was appointed CEO and executive director on 17 January 2024. The remuneration arrangements relating to Jon Lewis's retirement and the appointment of Adolfo Hernandez are set out on pages 114 and 115.

John Cresswell stepped down as a non-executive director on 31 March 2023. Claire Miles was appointed as a non-executive director on 12 May 2023 although she stepped down from her role on 31 December 2023 following her appointment as chief executive officer of Stagecoach. Janine Goodchild stepped down as employee director on 31 December 2023.

### Remuneration policy for 2024

As a result of the current policy (approved by shareholders at the 2021 AGM) reaching the end of its three-year shareholder approved life, a new policy is required in 2024.

Following a review of Capita's current policy to ensure it continues to support the business and delivery of the business strategy at the current time, the committee's main conclusion is that the current policy should be rolled over at the 2024 AGM with minor changes. While the committee did consider whether Capita should switch back from RSAs to Long Term Incentive Plan (LTIP) awards from 2024, the committee concluded that 2024 feels premature for the following two reasons:

- The committee wishes to ensure that the new CEO has sufficient opportunity to provide his input in respect of Capita's strategy and how this impacts the policy structure, performance metrics and targets following an appropriate period of time in the role; and
- Capita's current share price volatility means that granting LTIP awards, which are typically double RSA levels, will create dilution/share usage issues and increase the risk of windfall gains.

Major shareholders were consulted on the proposed approach towards the end of 2023 and the majority confirmed support. The committee will keep the policy under review and should the committee conclude that Capita should switch back from RSAs to LTIPs in the future, a new policy would be taken to the relevant AGM following a shareholder consultation exercise with our major shareholders.

### Implementing the policy for 2024

The committee's intended approach to the implementation of the policy for 2024 is set out below.

**Fixed remuneration:** Adolfo Hernandez was appointed on a salary of £700,000 (ie lower than the salary of Jon Lewis on retirement of £748,000). Jon Lewis and Tim Weller will not receive salary increases in 2024. No changes will be made to benefit provision and executive directors will continue to receive a workforce-aligned pension allowance (5% of salary) in line with other employees.

**2024 annual bonus:** The maximum potential will continue to operate at 200% (CEO) and 175% (CFO) of salary based on 80% financial (based on sliding scale revenue, profit and cash flow targets) and 20% strategic (focussed on improvement in the customer net promoter score (cNPS) targets).

**2024 RSAs:** The 2024 RSAs to be granted to executive directors in 2024 will:

- be set at a maximum of 125% of salary for the new CEO (ie lower than the previous CEO's 150% salary award) and 100% of salary for the CFO;
- vest after three years from the grant date, subject to continued employment, satisfactory individual performance and a positive assessment of performance against the underpins (including three-year TSR to be positive). No shares can normally be sold until at least six years from grant, other than those required to settle any taxes.

The actual number of shares under award will be determined just prior to the date of grant and details will be set out in the RNS issued immediately following grant.

## I Directors' remuneration report *continued*

### Shareholder views

The committee engaged with our major shareholders and the main representative bodies towards the end of 2023 and early 2024 in advance of the 2024 AGM. Our major shareholders confirmed that they were supportive of the new proposed policy in respect of the committee's conclusions. As such, no changes were made to the proposals following consideration of the feedback received.

### Employee engagement

In 2023, Jon Lewis regularly communicated with all employees, including on our 2022 financial results. Employees are able to submit any questions about the Company, including in relation to the directors' remuneration policy and report, pay and benefits, both online and during live employee briefings.

During 2023, the employee non-executive director attended committee meetings by invitation and was therefore able to provide colleague perspective on remuneration to the Board.

Over the last couple of years, the committee has established a process of engaging with the workforce on how executive remuneration aligns with wider company pay policy, in compliance with the Code. The purpose and content of the sessions are clearly articulated and publicised to encourage a wide range of attendees and questions. A session was held with the chairs and co-chairs of the Capita employee network groups and members of the leadership council in mid-2023. In addition, a further session was held with a cross-section of employees from different levels, divisions and territories within the Capita Group in December 2023. Both sessions were chaired by Georgina Harvey and covered: the work of the committee; executive pay in the UK; and at Capita how executive remuneration is linked to performance; strategy on workforce pay and progression; and how Capita executive pay policy links to wider Company pay policy including how each element of the remuneration package cascades down the business and future pay strategy. These sessions provide an opportunity for questions and answers and the provision of feedback is encouraged. Further workforce engagement sessions will take place during 2024 following a similar structure.

### Concluding thoughts

The committee considers that our remuneration policy continues to remain appropriate and was pleased with the level of support it received during the consultation exercise with our major shareholders and the main representative bodies. That said, this will be kept under review given the recent appointment of our new CEO.

I hope you find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of the binding vote to approve the rollover of current policy and 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

5 March 2024

## I Directors' remuneration report *continued*

# Directors' remuneration policy

This part of the remuneration report sets out our proposed remuneration policy which will be put to shareholders for approval at the 2024 AGM. The information provided in this section of the remuneration report is not subject to audit.

The proposed policy is a rollover of current policy with minor amendments and, subject to shareholder approval, will take formal effect from the conclusion of the 2024 AGM. A summary of the changes from the policy approved by shareholders at the 2021 AGM is as follows:

- Reflecting the new CEO's 125% of salary RSA level (ie lower than the 150% of salary received by Jon Lewis), the maximum RSA in the policy table has been reduced to 125% of salary. Connected to this, the maximum variable remuneration for a new executive director appointment has been reduced from 350% to 325% of salary in the Directors' recruitment and promotions section;
- Enhancing the disclosure under the policy table in respect of committee discretion to make it clear that, consistent with best practice, the committee retains absolute discretion to override formulaic outcomes in the bonus, RSA and any other remuneration arrangements where relevant; and
- References to the employee non-executive director have been removed following the Board's decision that from 1 January 2024, the Board will constitute seven directors (comprising the chairman, two executive directors, and four independent non-executive directors).

### 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 team members, and the Chief General Counsel and Company Secretary role, including setting the overarching principles, parameters and governance framework and determining each remuneration package. In addition, the committee reviews remuneration for the wider workforce and related policies and the alignment of incentives and rewards with culture. The committee also sets the Chairman's fee.

In setting the remuneration policy for the executive directors, executive team members and the Chief General Counsel and Company Secretary role, 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 material proportion of remuneration 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. It considers the AGM to be an opportunity to communicate with shareholders, giving them 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 on pages 99 and 100, the committee consulted with major shareholders and shareholder representatives on the proposal to rollover the current policy and the majority confirmed support. As such, no changes were made to the proposed approach following consideration of the feedback received.

### Consideration of our people

When determining executive director remuneration policy and practices, the committee reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture to ensure that workforce pay and conditions are taken into account when setting the pay of executive directors and senior management.

## I Directors' remuneration report *continued*

### 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.	<p>Normally reviewed annually. The committee may award salary increases at other times of the year if it considers it to be appropriate. The review takes into account:</p> <ul style="list-style-type: none"> <li>Salaries in similar companies and comparably-sized companies</li> <li>Remuneration policy</li> <li>Economic climate</li> <li>Market conditions</li> <li>Group performance</li> <li>The role and responsibility of the individual director</li> <li>Employee remuneration across the broader workforce.</li> </ul>	<p>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:</p> <ul style="list-style-type: none"> <li>Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for the broader workforce.</li> <li>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).</li> <li>Larger increases may also be considered appropriate if a director has been initially appointed to the Board at a lower than typical salary.</li> </ul>	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.	<p>Benefits may include car allowance, private medical insurance, travel and property hire. Executive directors can also participate in all-employee share plans.</p> <p>The committee has discretion to add additional benefits which are not currently provided, such as relocation expenses.</p>	<p>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.</p> <p>Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.</p>	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.	Not performance-related.

## I Directors' remuneration report *continued*

### Annual bonus

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Performance measures are selected to focus executives on delivery of the Group's business plan for the financial year.	<p>The bonus measures and targets are reviewed annually to ensure that bonus opportunity and performance measures are appropriately stretching and continue to support the business plan.</p> <p>Performance against targets is reviewed following completion of the final accounts for the period under review.</p> <p>50% of any bonus earned (net of tax) is normally delivered in shares deferred for three years, with the remainder delivered in cash or deferred shares at the executive director's discretion.</p> <p>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.</p> <p>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.</p>	200% of salary.	<p>Performance is normally measured over a one-year period relative to challenging targets for selected measures of Group financial, strategic and/or individual performance.</p> <p>The majority of the bonus will be determined by measure(s) of Group financial performance.</p> <p>A sliding scale is set for each Group financial measure: 50% of the bonus will be paid at target performance, increasing to 100% for maximum performance.</p> <p>Any bonus payout is ultimately at the discretion of the committee, and the amount of any bonus that would be determined based on performance may be reduced if the committee believes this better reflects the underlying performance of Capita over the relevant period.</p>

### Restricted share awards

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
<p>Designed to reward and retain executives over the longer term, while aligning their interests with those of shareholders.</p> <p>To link reward to longer-term performance.</p> <p>To encourage share ownership.</p>	<p>Awards normally vest after three years from grant and, once vested, shares may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).</p> <p>Dividends or dividend equivalents may accrue over the vesting period and any holding period but only to the extent awards vest.</p> <p>Malus and clawback provisions apply to awards for a period up to the fifth anniversary of grant.</p>	125% of salary.	<p>Vesting will be subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against one or more underpins.</p> <p>In addition, the committee may reduce the extent to which an award vests if it believes this better reflects the underlying performance of Capita over the relevant period.</p>

### 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.	<p>Shareholding guidelines require executive directors to reach a specified shareholding. Executive directors are required to retain 100% of any shares from deferred bonus awards, RSAs (or LTIPs as granted under the previous policy) on vesting (net of tax) until the guideline level is achieved.</p> <p>Post-cessation guidelines apply to share awards granted 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 share awards granted prior to the 2020 AGM will not be counted.</p>	<p><b>In employment:</b> 300% of salary (CEO); 200% of salary (CFO).</p> <p><b>Post cessation:</b> 100% of the relevant guideline between cessation and the second anniversary of cessation (or the actual shareholding if the guideline has not been met at cessation).</p>	Not performance-related.

## I Directors' remuneration report *continued*

### 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 the required skills, experience and knowledge so that the Board can effectively carry out its responsibilities.	<p>Reviewed periodically by the Board. Fee levels set by reference to market rates, taking into account the individual's experience, responsibilities, time commitment and pay decisions for the broader workforce. NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as:</p> <ul style="list-style-type: none"> <li>• Senior independent director</li> <li>• Audit and Risk Committee chair</li> <li>• Remuneration Committee chair</li> <li>• The Chairman of the Board receives an all-inclusive fee.</li> </ul> <p>Additional fees/allowances may also be paid for intercontinental travel for business purposes where appropriate. 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.</p>	As per the executive directors, there is no prescribed maximum monetary annual increase. Fees are limited to an aggregate annual sum of £1m increased only to take account of the effect of inflation as measured by the retail price index or such index as the directors consider appropriate or such other amount as the Company may by ordinary resolution decide.	Not performance-related.

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.

Targets are normally 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.

The committee operates share-based arrangements for the executive directors in accordance with their respective scheme 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 any performance target/underpin and pro-rating of awards in the event of a 'good leaver' scenario or a change of control or restructuring of the Company
- Determination of whether or not a person is characterised as 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)/underpins if circumstances occur which cause it to determine that the original condition(s) have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). In the event that the committee were to make an adjustment of this sort, a full explanation would be provided in the next remuneration report

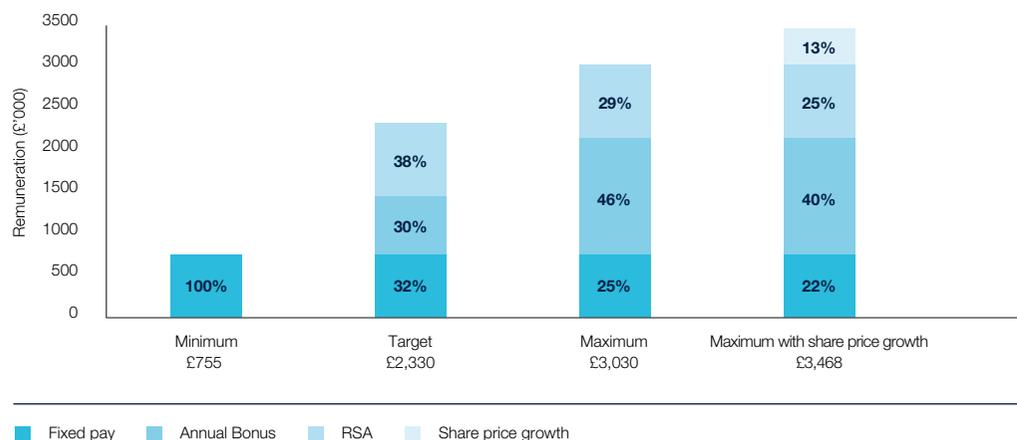
In all cases, the committee retains absolute discretion to override formulaic outcomes in the bonus, RSA and any other remuneration arrangements (eg to ensure that any payouts reflect underlying Company performance and the broader stakeholder experience).

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.

## Directors' remuneration report *continued*

### Illustrations of the application of our remuneration policy

#### CEO remuneration chart



#### CFO remuneration chart



The scenarios in the above graphs for the newly appointed CEO and CFO are based on the following:

	Minimum	On-target	Maximum	Maximum with share price
<b>Fixed pay</b>	<ul style="list-style-type: none"> <li>Base salary at 1 January 2024 (or appointment if later)</li> <li>Estimated value of benefits</li> <li>5% of salary pension</li> </ul>			
<b>Annual bonus</b>	CEO max: 200% of salary CFO max: 175% of salary			
	0%	50% of max	100% of max	100% of max
<b>RSA</b>	CEO max: 125% of salary <sup>1</sup> CFO max: 100% of salary <sup>1</sup>			
	0%	100% of max	100% of max	100% of maximum with a 50% share price growth assumption on RSAs

1. This is the maximum award level permitted. The actual number of shares under award in 2024 will be determined just prior to the date of grant. Except as stated above in relation to RSA, figures for share based awards do not include any share price movements or any dividends or dividend equivalents.

#### Malus and clawback

Malus and clawback provisions apply to all incentive awards granted to executive directors. These provisions permit the committee to reduce or recover bonus awards (including deferred shares) for up to three years after the determination of the annual bonus and to reduce or recover RSA awards (and LTIP awards granted under the previous policy) up to the fifth anniversary of grant. 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
- reputational damage
- material failure of risk management
- corporate failure or the occurrence of an insolvency event.

## I Directors' remuneration report *continued*

### Application of our remuneration policy

When determining executive director remuneration policy and practices, the committee reviews workforce remuneration and related policies, and the alignment of incentives and rewards with culture.

Share awards are granted to senior management in order to encourage a high level of employee share ownership, albeit remuneration is more heavily weighted towards long-term variable pay for executive directors than other employees. This is to ensure that there is a clear link between the value created for shareholders and the remuneration received by the executive directors. The committee did not consult with employees formally in respect of the design of the policy, although the employee non-executive director who attended the committee by invitation during 2023 was involved in the committee's discussions.

### Directors' recruitment and promotions

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

If a new executive director were to be appointed on a permanent basis, the committee would seek to align their remuneration package with other executive directors in line with the policy table. However, flexibility would be retained to make buyout awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer. In such circumstances, 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.

If appropriate, a new appointee's incentives in their year of joining may be subject to different targets than for other executive directors. The committee may also agree that the Company will meet certain relocation and incidental expenses, as it considers appropriate.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new executive directors in the year of recruitment shall be limited to 325% of salary (the maximum limit permitted within the policy table).

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

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

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

- An interim appointment is made to fill an executive director role on a short-term basis.
- Exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short-term basis.

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

### Directors' service agreements and payments for loss of office

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

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

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

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

## I Directors' remuneration report *continued*

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) for a good leaver (as defined in the relevant plan rules).

In respect of RSAs/LTIPs, 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 any performance conditions/underpins attached to the relevant award are satisfied at vesting. In such cases awards will, other than in exceptional circumstances, be scaled back on a time pro-rated basis and post-vesting holding periods would normally apply.

In the event of a change of control, all unvested LTIP awards/RSAs would (unless rolled over) vest, to the extent that any performance conditions/underpins attached to the relevant awards have been achieved. Awards would normally be subject to time pro-rating (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 or exchanged for replacement shares 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.

### **Inspection of service agreements/letters of appointment**

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.

## I Directors' remuneration report *continued*

# Annual report on remuneration

### 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 2024 AGM. The information on pages 108 to 118 has been audited as indicated.

FIT Remuneration LLP (FIT) was appointed by the committee during 2020 to provide independent advice on executive remuneration matters. During the year, the committee received independent and objective advice from FIT primarily on market practice, governance updates, the operation and review of the remuneration policy, shareholder/proxy feedback on policy proposals, remuneration-related disclosure within the accounts and the retirement of Jon Lewis and appointment of Adolfo Hernandez as CEO. FIT's fees were £123,106 (excluding VAT) during 2023 for its services (charged on a time plus expenses basis). The fees were considered appropriate for the work undertaken. No other services were provided to the Group by FIT.

FIT is a founding member of the Remuneration Consultants Group and, as such, operates voluntarily under the code of conduct in relation to executive remuneration consulting in the UK. The committee considers FIT's advice on remuneration to be independent and objective, and there is no connection with the Company or individual directors.

The committee also consulted with the CEO, CFO, 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 committee is detailed in the annual statement.

### Shareholder voting at the AGM

The 2023 directors' remuneration report will be presented to shareholders at the 2024 AGM. At the 2023 AGM, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2022 is set out below together with the vote on the current remuneration policy approved at the 2021 AGM.

	Votes cast for	Votes cast against	Abstentions <sup>1</sup>
Directors' remuneration report, other than the part containing the directors' remuneration policy, for the year ended 31 December 2022	1,120,642,451	43,174,795	92,205
	96.29%	3.71%	
Directors' remuneration policy (2021 AGM)	1,254,719,423	37,105,242	108,597
	97.13%	2.87%	

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.

### Policy implementation for 2024

Details of the committee's intended approach to the implementation of the policy for 2024 is set out in the annual statement.

### Fees for the Chairman, senior independent director and non-executive directors

A summary of the fees for 2024 which are unchanged from 2023 levels are as follows:

	Annual fee from 1 January 2024
David Lowden, Chairman	£290,000
Georgina Harvey, Senior Independent Director and Remuneration Committee Chair	£85,500
Brian McArthur-Muscroft, Audit and Risk Committee Chair	£75,000
Nneka Abulokwe	£64,500
Neelam Dhawan	£64,500

## I Directors' remuneration report *continued*

### Directors' remuneration earned in 2023 – single-figure table (audited)

The table below summarises directors' remuneration received in 2023 (with prior year comparators).

		Base salary and fees £	Benefits <sup>1</sup> £	Pension £	Annual bonus £	LTIP £	RSA £	Total remuneration £	Total fixed remuneration £	Total variable remuneration £
David Lowden <sup>2</sup>	<b>2023</b>	290,000	1,876	–	–	–	–	<b>291,876</b>	291,876	–
	2022	213,447	839	–	–	–	–	<b>214,286</b>	214,286	–
Jon Lewis <sup>3,4</sup>	<b>2023</b>	748,000	19,475	37,400	0	–	0	<b>804,875</b>	804,875	0
	2022	748,000	17,986	37,400	897,600	98,978	–	<b>1,799,964</b>	803,386	996,578
Tim Weller <sup>3,5</sup>	<b>2023</b>	545,000	17,703	27,250	0	–	0	<b>589,953</b>	589,953	0
	2022	545,000	18,399	27,250	572,250	–	–	<b>1,162,899</b>	590,649	572,250
Georgina Harvey <sup>6</sup>	<b>2023</b>	85,500	567	–	–	–	–	<b>86,067</b>	86,067	–
	2022	80,250	–	–	–	–	–	<b>80,250</b>	80,250	–
Brian McArthur-Muscroft <sup>7</sup>	<b>2023</b>	75,000	567	–	–	–	–	<b>75,567</b>	75,567	–
	2022	42,875	–	–	–	–	–	<b>42,875</b>	42,875	–
Nneka Abulokwe <sup>8</sup>	<b>2023</b>	64,500	567	–	–	–	–	<b>65,067</b>	65,067	–
	2022	59,125	193	–	–	–	–	<b>59,318</b>	59,318	–
Neelam Dhawan <sup>9</sup>	<b>2023</b>	64,500	8,520	–	–	–	–	<b>73,020</b>	73,020	–
	2022	64,500	25,599	–	–	–	–	<b>90,099</b>	90,099	–
Claire Miles <sup>10</sup>	<b>2023</b>	40,897	311	–	–	–	–	<b>41,208</b>	41,208	–
	2022	–	–	–	–	–	–	<b>–</b>	–	–
Janine Goodchild <sup>11</sup>	<b>2023</b>	64,500	1,021	–	–	–	–	<b>65,521</b>	65,521	–
	2022	32,250	–	–	–	–	–	<b>32,250</b>	32,250	–
<b>Former Directors</b>										
Sir Ian Powell <sup>12</sup>	<b>2023</b>	–	–	–	–	–	–	<b>–</b>	–	–
	2022	128,951	16	–	–	–	–	<b>128,967</b>	128,967	–
John Cresswell <sup>13</sup>	<b>2023</b>	16,125	1,325	–	–	–	–	<b>17,450</b>	17,450	–
	2022	64,500	–	–	–	–	–	<b>64,500</b>	64,500	–
Matthew Lester <sup>14</sup>	<b>2023</b>	–	–	–	–	–	–	<b>–</b>	–	–
	2022	37,500	–	–	–	–	–	<b>37,500</b>	37,500	–
Lyndsay Browne <sup>15</sup>	<b>2023</b>	–	–	–	–	–	–	<b>–</b>	–	–
	2022	32,250	–	–	–	–	–	<b>32,250</b>	32,250	–
Joseph Murphy <sup>15</sup>	<b>2023</b>	–	–	–	–	–	–	<b>–</b>	–	–
	2022	32,250	–	–	–	–	–	<b>32,250</b>	32,250	–

## I Directors' remuneration report *continued*

- Benefits include all taxable benefits as defined by paragraph 11(1) of the regulations. This includes private medical insurance, company car allowance, work travel and the value of matching share awards under the UK all-employee share scheme.
- David Lowden was appointed Chairman on 11 May 2022 following the stepping down of Sir Ian Powell as Chairman and non-executive director on 10 May 2022. David stepped down from the position of senior independent director on his appointment as Chairman. Fees for 2022 reflect the change in roles and are shown on a pro-rata basis.
- Details of the performance assessment and vesting of the 2021 RSA awards held by Jon Lewis and Tim Weller are set out on page 111. RSAs granted to the executive directors in April 2022 and March 2023 with performance underpins, will be disclosed in the year ending just prior to the normal vesting date.
- The 2020 LTIP awards have been restated in the table above in respect of the prior year from £66,986 (based on a three-month average share price to 31 December 2022 of 25.23p) to £98,978 (based on a share price of 37.28p as at 14 April 2023 (the working day prior to the 16 April 2023 vesting date)).
- The benefits figure for Tim Weller for 2022 includes an element of backdated car allowance (£1,342) which was underpaid in 2021.
- Georgina Harvey was appointed Senior Independent Director on 1 July 2022 following David Lowden's appointment as Chairman. Fees for 2022 reflect the change in role part way through the year.
- Brian McArthur-Muscroft was appointed as a non-executive director on 1 June 2022 and replaced Matthew Lester as Chair of the Audit and Risk Committee on 1 July 2022. Fees for 2022 are shown from 1 June 2022 to 31 December 2022 and reflect his appointment as chair of a committee from 1 July 2022.
- Nneka Abulokwe was appointed as a non-executive director on 1 February 2022. Fees for 2022 are shown from 1 February 2022 to 31 December 2022.
- Neelam Dhawan is based outside the UK and receives an allowance for physical attendance at a Board meeting. This is shown in the benefits column.
- Claire Miles was appointed as a non-executive director on 12 May 2023. Fees for 2023 are shown from 12 May 2023 to 31 December 2023. Claire stepped down from the Board on 31 December 2023 following her appointment as CEO of Stagecoach. She was paid up to 6 January 2024 in line with the terms of the notice period in her service contract. These fees will be included in the table in next years' report.
- Janine Goodchild was appointed as employee non-executive director on 1 July 2022. Fees for 2022 are shown from 1 July 2022 to 31 December 2022. In addition to her fee as an employee non-executive director, she received earnings from the Group as an employee amounting to £51,213 for the year ended 31 December 2023. The figures for earnings for 2022 are disclosed in footnote 9 of the single figure table in the 2022 report. Janine stepped down from the Board on 31 December 2023.
- Sir Ian Powell stepped down as Chairman and non-executive director on 10 May 2022. Fees for 2022 are shown from 1 January 2022 to 10 May 2022 and include an element of accrued holiday pay.
- John Cresswell stepped down as a non-executive director on 31 March 2023. Fees for 2023 are shown from 1 January 2023 to 31 March 2023.
- Matthew Lester stepped down as a non-executive director on 30 June 2022. Fees for 2022 are shown from 1 January 2022 to 30 June 2022.
- Lyndsay Browne and Joseph Murphy stepped down as employee directors on 30 June 2022. Fees for 2022 are shown from 1 January 2022 to 30 June 2022. The figures for earnings for 2022 are disclosed in footnote 16 of the single figure table in the 2022 report.

### Annual bonus for 2023 (audited)

The annual bonus for 2023 (200% of salary for the CEO and 175% of salary for the CFO) was based on a combination of revenue, profit before tax (PBT) and free cash flow targets (equally weighted and totalling 80% of maximum bonus) and strategic/individual objectives (20% of maximum bonus).

On a formulaic basis and as set out in the financial targets table below, actual revenue performance would have resulted in a payout of 11% of the maximum 80% available for the financial measures (equating to c.18% of salary for the CEO and c.15% of salary for the CFO). However, while revenue performance was between threshold and target, it was noted that revenue benefited from certain non-trading items, the exclusion of which would have resulted in a below threshold performance. PBT and free cash flow performance were below threshold.

In light of financial performance, while progress was made against a number of the strategic/individual objectives, management recommended to the committee that no management bonuses should be paid for the year ended 31 December 2023 and the committee accepted this proposal.

### Financial targets (80% of the bonus)

	Weighting (% of maximum bonus)	Threshold target (25% vests)	Target (50% vests)	Stretch (100% vests)	Actual performance <sup>1</sup>	Achievement against financial performance weighting
Revenue	26.67%	£2,609m	£2,712m	£2,848m	£2,642m	33% of max <sup>4</sup>
PBT	26.67%	£58m	£73m	£87m	£56m <sup>2</sup>	0%
Free cash flow	26.67%	£(90)m	£(65)m	£(40)m	£(115)m	0% <sup>3</sup>
Financial measures bonus payout	80%					11% of max <sup>4</sup>

- The targets above have been adjusted to include Tascor which was previously held in Portfolio and has now been moved to Public, and to exclude Healthcare Decisions, which has been moved to business exits.
- In H1 2023 the Group changed its definition of free cash flow, excluding business exits to include the capital element of finance lease payments and receipts. The above free cash flow targets have been adjusted to align with this.
- Costs relating to the cyber incident and restructuring have been treated as exceptional in the calculation of PBT performance.
- Reduced to £nil following management's recommendation to the committee that no management bonuses should be paid for the year ended 31 December 2023.

## I Directors' remuneration report *continued*

### Strategic/individual objectives (20% of the bonus)

The committee received regular performance updates during 2023 in respect of the strategic/individual objectives and noted the strong progress made against a number of the strategic/individual objectives set out below (including the growth, net zero and role-based measures). However, as a result of management's recommendation not to award bonuses for the year ended 31 December 2023, the committee did not formally assess the strategic targets post year end.

Objectives and weighting (% of maximum bonus)	Threshold	Target	Maximum
<b>Customer (4%) – cNPS</b> Deliver improvement in customer net promoter score (cNPS) for Capita Group (excluding Portfolio) by the end of 2023	Maintain score	+4 point improvement	+8 point improvement
<b>Employee (4%) – Deliver improvement in the employee engagement index for Capita Group by the end of 2023</b>	Maintain the current gap of 4% to the UK 2023 benchmark	Close the gap to the UK 2023 benchmark by 2%	Match the 2023 UK benchmark
<b>Growth (4%) – Conversion of new business (both from existing and new clients)</b>	28%	33%	38%
<b>Net zero (4%) – measured by reference to the aggregate (sum of the 2023 emissions for business travel and energy/property (scope 1 and 2)) tonnes CO<sub>2</sub> reported and, for target and stretch, supply chain targets</b>	Aggregate tonnes CO <sub>2</sub> reported is no more than 5% higher than the target	Aggregate tonnes CO <sub>2</sub> reported is as per the agreed plan; and the supply chain target (as per the agreed plan) is achieved or exceeded	Aggregate tonnes CO <sub>2</sub> reported is at least 5% lower than target; and the supply chain target (as per the agreed plan) is achieved or exceeded
<b>Cyber (4%) – Deliver improvement in Capita's cyber resilience posture and maturity level during 2023 (CEO only)</b>			
<b>Long-term financing (4%) – Review Capita's long-term debt financing position (CFO only)</b>			

### Restricted Share Awards due to vest in 2024 (audited)

RSAs were granted under the Capita Executive Plan in May 2021 as follows:

Name of director	Number of shares awarded
Jon Lewis	2,169,100
Tim Weller	1,082,695

Vesting of the 2021 RSAs in May 2024, is subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against the following underpins:

- underpin 1: Capita's TSR over the three years ended 31 December 2023 must be positive for any RSAs granted to executive directors to vest; and
- underpin 2: the committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage. If this is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

Given that Capita's share price has fallen over the three years ended 31 December 2023 (ie TSR has been negative), the 2021 RSAs lapsed in full post year end.

### RSAs granted in 2023 (audited)

RSAs were granted under the Capita Executive Plan in March 2023 as follows:

Name of director	Number of shares awarded	Face value of RSA	Percentage of salary
Jon Lewis	2,744,886	£1,122,000	150%
Tim Weller	1,333,300	£545,000	100%

Award levels reflect the continued operation of a TSR underpin for a third year in a row. RSAs will normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against the following two underpins:

- underpin 1: Capita's TSR over the three years ending 31 December 2025 must be positive for any RSAs granted to executive directors to vest; and
- underpin 2: the committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage. If this is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

Once vested, shares received may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

## I Directors' remuneration report *continued*

### Directors' interests and shareholding guidelines (audited)

Executive directors are expected to hold 200% (300% for the CEO) of salary in shares in the Company. The guidelines include shares held beneficially and also shares within the deferred annual bonus (DAB) plan that have been deferred over the three-year period, RSA awards which are not subject to performance conditions/performance underpins and share awards which have vested but not yet been exercised. Any shares in the DAB, RSA awards which are not subject to performance conditions/performance underpins and vested but unexercised LTIP awards used for this are calculated net of tax. Share awards that are subject to performance conditions are not included.

	Beneficially held interests at 31 December 2023	Beneficially held interests at 31 December 2022	Interests in share incentive schemes, awarded without performance conditions at 31 December 2023	Interests in share incentive schemes, awarded without performance conditions at 31 December 2022	Interests in share incentive schemes, awarded subject to performance conditions/underpins at 31 December 2023	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2022	Interests in share option schemes where performance/vesting conditions have been met but not exercised at 31 December 2023	Interests in share option schemes where performance/vesting conditions have been met but not exercised at 31 December 2022	Percentage of shareholding target requirement at 31 December 2023 <sup>1</sup>
David Lowden	250,000	150,000	–	–	–	–	–	–	–
Jon Lewis	2,730,255	1,414,538	2,069,612	868,456	8,395,971	7,421,085	265,500	738,877	39%
Tim Weller	818,240	270,689	1,093,053	327,276	4,953,003	3,619,703	–	–	28%
Georgina Harvey	6,000	6,000	–	–	–	–	–	–	–
Brian McArthur-Muscroft	–	–	–	–	–	–	–	–	–
Nneka Abulokwe	–	–	–	–	–	–	–	–	–
Neelam Dhawan	–	–	–	–	–	–	–	–	–
Claire Miles <sup>2</sup>	20,000	–	–	–	–	–	–	–	–
Janine Goodchild <sup>2</sup>	–	–	–	–	–	–	–	–	–
John Cresswell <sup>3</sup>	65,500	65,500	–	–	–	–	–	–	–

1. Calculated using the closing share price on 29 December 2023 (22p), being the last working day of 2023.

2. Claire Miles and Janine Goodchild stepped down from the Board on 31 December 2023. Their beneficially held interests are shown as at that date.

3. John Cresswell's beneficially held interests are shown at the date of his resignation on 31 March 2023.

Between the end of the 2023 financial year and 1 March 2024, Tim Weller acquired 1,642 shares under the Capita share ownership plan, increasing his beneficial interest in ordinary shares of the Company to 819,882. 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.

## I Directors' remuneration report *continued*

### Share plans (audited)

#### DAB plan

A deferred award is the deferred element of an individual's annual bonus. Any deferral is made on a gross basis into deferred shares or as a (net of tax) 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 2023<sup>1</sup>

Name of director	2022 award <sup>2</sup>	2023 awards <sup>3</sup>	Total
Jon Lewis	868,456	1,201,156	<b>2,069,612</b>
Tim Weller	327,276	765,777	<b>1,093,053</b>

- As a result of no bonus award for 2019 performance and no bonus operating for 2020, there were no deferred bonus awards in 2020 or 2021.
- The value of the 2022 deferred award granted on 25 March 2022 was included in the annual bonus value in the 2021 single-figure table (and is included in the comparative figures for 2021 in the table on page 111 of the 2022 report). This award is due to vest on 25 March 2025.
- The value of the 2023 deferred award granted on 5 April 2023 was included in the annual bonus value in the 2022 single-figure table (and is included in the comparative figures for 2022 in the table on page 109). This award is due to vest on 5 April 2026.

#### Restricted share awards granted in 2021

Name of director	2021 award
Jon Lewis	2,169,100
Tim Weller	1,082,695

As set out on page 111, the TSR underpin for these awards has not been met. The awards therefore lapsed in full post year end.

#### Unvested restricted share awards

Name of director	2022 award	2023 award
Jon Lewis	3,481,985	<b>2,744,386</b>
Tim Weller	2,537,008	<b>1,333,300</b>

There are no performance targets attached to the RSAs. However, vesting is subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against the following two underpins:

- underpin 1: Capita's TSR over the three financial years ending prior to the relevant vesting date must be positive for any RSAs granted to executive directors to vest; and

- underpin 2: the committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage. If this is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

### 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 3.82% of the Company's share capital at 31 December 2023.

### Executive directors' service agreements

Executive directors	Date of joining the Company	Notice period
Jon Lewis	1 December 2017	12 months
Tim Weller	12 May 2021	12 months

### Non-executive directors' terms of engagement

Non-executive directors	Date of joining the Board	Expiry date of current appointment
David Lowden	1 January 2021	9 May 2025
Georgina Harvey	1 October 2019	1 July 2025
Brian McArthur-Muscroft	1 June 2022	31 May 2025
Nneka Abulokwe	1 February 2022	31 January 2025
Neelam Dhawan	1 March 2021	28 February 2027
Claire Miles <sup>1</sup>	12 May 2023	31 December 2023
John Cresswell <sup>2</sup>	17 November 2015	31 March 2023

- Claire Miles stepped down from the Board on 31 December 2023.
- John Cresswell stepped down from the Board on 31 March 2023.

## I Directors' remuneration report *continued*

### Board changes

Jon Lewis retired as CEO of Capita and stepped down from the Board on 17 January 2024 although he remains an employee until July 2024 to ensure an orderly transition.

Post stepping down from the Board, Jon will continue to receive a base salary, pension and benefits up to the end of his notice period in July 2024. Jon will not be eligible to participate in the Group annual bonus plan for 2024 although he will be eligible to receive an annual bonus in relation to his below Board employment, subject to achievement of performance targets, which will be pro-rated to the date of cessation of employment (or commencement of garden leave if relevant). Jon will not be entitled to future RSAs.

In respect of Jon's share awards:

- Deferred Annual Bonus (DAB): 868,456 shares granted in 2022 in respect of the 2021 annual bonus and 1,201,156 shares granted in 2023 in respect of the 2022 annual bonus will continue to vest at the normal vesting dates.
- Long Term Incentive Plan (LTIP): 265,500 shares which vested under the 2020 LTIP will need to be retained until the expiry of the relevant two year post vesting holding periods.
- Restricted Share Awards (RSAs): 3,481,985 shares granted under the 2022 RSA and 2,744,886 shares granted under the 2023 RSA will continue to vest on the normal vesting dates, subject to the relevant performance underpins being met and reduced for time pro-rating. To the extent that any RSAs vest in the future, reflecting the nature of Jon's departure (ie a good leaver due to retirement after the completion of his 12-month notice period) and consistent with provision 36 of the Code and market practice, the net of tax shares will need to be retained for two years post vesting rather than the three years applying to normal vestings.

For 24 months following cessation, Jon will be required to retain the lower of Capita plc shares equal to 300% of base salary and actual shares held (excluding shares acquired from own purchases and any shares received from awards granted prior to the 2020 AGM).

Jon will be reimbursed for legal fees in connection with his retirement.

Capita will make no payment to Jon by way of compensation for loss of office on retirement from the Board.

### Appointment of Adolfo Hernandez

Adolfo Hernandez was appointed CEO and executive director on 17 January 2024 on a base salary of £700,000 which is lower than that of his predecessor (£748,000). Adolfo's annual bonus maximum is 200% of salary (pro-rated for 2024) which is subject to performance targets and deferral requirements in line with policy. He will receive an RSA in 2024 up to a maximum of 125% (ie lower than his predecessor at 150%). Benefits and pension are in line with policy which is unchanged in 2024.

As part of agreeing Adolfo Hernandez's recruitment and in line with Capita's policy, the committee considered the value of share awards Adolfo would forfeit in order to join Capita. The committee was satisfied that it would be fair and reasonable to compensate Adolfo Hernandez for part of his loss by granting him an award over Company shares on the terms set out below, pursuant to Listing Rule 9.4.2(2) (the Buy-out Award).

The Buy-Out Award is expected to be granted to Adolfo Hernandez in March 2024 and will be a conditional award over a maximum of c.12m shares that will vest in five tranches, subject to continued service, as follows:

Tranche	Shares under award	Normal vesting date
1	2,509,709	15 July 2024
2	2,497,467	15 January 2025
3	1,897,585	15 July 2025
4	1,885,343	15 January 2026
5	3,256,501	15 July 2026
<b>Total</b>	<b>12,046,605</b>	

## I Directors' remuneration report *continued*

Consistent with the awards forfeited, no performance conditions will apply and the vesting dates are no earlier than the vesting dates of the forfeited share awards being compensated. Dividend equivalent rights do not attach to the Buy-out Award. Clawback may be applied until the fifth anniversary of grant. More broadly, the terms of the Capita Executive Plan 2021 apply to the Buy-out Award (such as provisions relating to good leaver treatment, change of control treatment, malus and clawback and adjustments), except as described below:

- The Buy-out Award is not pensionable and may not be settled with new issue or treasury shares.
- The individual and plan limits, and the restrictions relating to when grants may be made, in the Capita Executive Plan 2021 do not apply to the Buy-out Award.
- The provisions relating to how award terms may be amended do not apply. However, the Company confirms the number of shares under the Buy-out Award, the basis for determining Adolfo Hernandez's entitlement to shares and the terms relating to adjustment on any capitalisation issue, rights issue or open offer, subdivision or consolidation or reduction of capital or any other variation of capital of the Company will not be altered to Adolfo Hernandez's advantage without the prior approval of shareholders in a general meeting (except for minor amendments to benefit administration, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Adolfo Hernandez or the Capita group).

### Other Board changes

John Cresswell stepped down from the Board on 31 March 2023. No payments were made or are payable outside of his normal annual fees up to cessation. Claire Miles stepped down from the Board on 31 December 2023 following her appointment as CEO of Stagecoach. She was paid up to 6 January 2024 in line with the terms of the notice period in her service contract. These fees will be included in next years' report. Janine Goodchild stepped down from the Board as employee non-executive director on 31 December 2023. No payments were made or are payable outside of her normal annual fee up to cessation. She remains an employee and so continues to receive remuneration from the Group in this respect.

### Payments to former directors (audited)

No payments were made to former directors.

### External appointments for executive directors

During the year Jon Lewis served as a non-executive director for Equinor ASA. He received and retained fees of NOK854,594 for the period from 1 December 2022 to 30 November 2023. Tim Weller was a non-executive director of The Carbon Trust until mid-September 2023 for which he received £11,970 up to his resignation date. Tim was appointed as an independent council member of the University of Exeter in August 2023 for which he receives no remuneration. The committee considers that such roles can benefit Capita through broadening knowledge and experience.

## Directors' remuneration report *continued*

### Percentage change in remuneration levels

The table below shows the change in base compensation, benefits and annual bonus for the Board directors in the 2020 to 2023 financial years (excluding directors who left Capita before 2022 details for which are set out in previous remuneration reports), compared with the average for all employees of the Company (Capita plc):

	2023			2022			2021			2020		
	Base salary/fees	Taxable benefits <sup>13</sup>	Annual bonus	Base salary/fees	Taxable benefits <sup>13</sup>	Annual bonus	Base salary/fees	Taxable benefits <sup>13</sup>	Annual bonus	Base salary/fees	Taxable benefits <sup>13</sup>	Annual bonus
Executive directors <sup>1</sup>												
Jon Lewis <sup>2</sup>	0%	8.3%	-100%	3.2%	-4.5%	150%	14.3%	5.1%	100% <sup>2</sup>	-12.5%	-36.9%	-
Tim Weller <sup>3</sup>	0%	-3.8%	-100%	0%	23%	132%	-	-	-	-	-	-
Non-executive directors <sup>1</sup>												
David Lowden <sup>4</sup>	0%	123.6%	-	286.7%	100%	-	-	-	-	-	-	-
Georgina Harvey <sup>5</sup>	0%	100%	-	14%	-	-	14.3%	-	-	-12.5%	-	-
Brian McArthur-Muscroft <sup>6</sup>	0%	100%	-	-	-	-	-	-	-	-	-	-
Nneka Abulokwe <sup>6</sup>	0%	194%	-	-	-	-	-	-	-	-	-	-
Neelam Dhawan <sup>7</sup>	0%	-66.7%	-	0%	540%	-	-	-	-	-	-	-
Claire Miles <sup>8</sup>	-	-	-	-	-	-	-	-	-	-	-	-
Janine Goodchild <sup>6</sup>	0%	100%	-	-	-	-	-	-	-	-	-	-
John Cresswell <sup>9</sup>	0%	100%	-	0%	-	-	14.3%	-	-	-12.5%	-	-
Sir Ian Powell <sup>10</sup>	-	-	-	0%	100%	-	14.3%	-	-	-12.5%	-100%	-
Matthew Lester <sup>10</sup>	-	-	-	0%	-	-	13.9%	-	-	-12.5%	-	-
Lyndsay Browne <sup>11</sup>	-	-	-	0%	-	-	14.3%	-	-	-12.5%	-	-
Joseph Murphy <sup>11</sup>	-	-	-	0%	-	-	14.3%	-	-	-12.5%	-	-
Employee population <sup>12</sup>	5.6%	0.1%	-100%	5%	7.4%	38.1%	2.8%	4.4%	123.2%	5.5%	20.6%	-35.2%

- The percentage change shown for the directors is based on the single figure information disclosed on page 109. The increase in salary/fees shown as the comparative for 2021 is due to the voluntary reduction taken by executive and non-executive directors in 2020 in response to Covid-19.
- Jon Lewis did not receive a bonus in 2020 as the bonus plan was cancelled in response to Covid-19. The increase in 2021 is therefore shown as 100%. As no bonus was awarded in respect of the year ended 31 December 2023 the decrease is shown as -100%.
- Tim Weller was appointed to the Board on 12 May 2021. Comparative figures for 2021 are therefore unavailable. His salary, benefits and annual bonus for 2021 have been annualised to show an approximate percentage change between 2021 and 2022. The increase in benefits in 2022 is due to a backdated payment for car allowance (£1,342) which was underpaid in 2021. As no bonus was awarded in respect of the year ended 31 December 2023 the decrease is shown as -100%.
- David Lowden was appointed Chairman in May 2022. His fee for 2022 has been annualised to show the percentage change between 2021 and 2022 following his change in role which has a significantly increased time commitment and associated fee. His fee for 2023 reflects that there has been no change in his annual fee for the Chairmanship since 2022. David was appointed to the Board during 2021, comparative figures for 2021 are therefore unavailable.
- Georgina Harvey was appointed Senior Independent Director in July 2022. Her fee for 2022 has been annualised to show the percentage change between 2021 and 2022 following her change in role. Her fee for 2023 reflects that there has been no change in her annual fee for being a non-executive director, chair of the remuneration committee and Senior Independent Director since 2022.
- Brian McArthur-Muscroft, Nneka Abulokwe and Janine Goodchild were appointed to the Board during 2022. Comparative figures for 2021 are therefore unavailable. Fees for 2022 have been annualised to show that there has been no increase in their annual fee in 2023.
- Neelam Dhawan was appointed to the Board during 2021. Comparative figures for 2021 are therefore unavailable. Her fee for 2021 has been annualised to show the percentage change since 2021. The increase in benefits in 2022 is due to additional fees payable for physical attendance at board meetings as Neelam is based outside the UK. The reduction in benefits in 2023 is due to fewer meetings attended in person.
- Claire Miles was appointed to the Board during 2023. Comparative figures for 2023 are therefore unavailable.
- John Cresswell stepped down from the Board during 2023. For comparative purposes, his 2023 fees have been annualised to show the percentage change since 2022.
- Sir Ian Powell and Matthew Lester stepped down from the Board during 2022. For comparative purposes, their 2022 fees have been annualised to show the percentage change between 2021 and 2022.
- Lyndsay Browne and Joseph Murphy stepped down from the Board during 2022. For comparative purposes, their 2022 fees have been annualised to show the percentage change (in fees as a non-executive employee director) between 2021 and 2022.
- The employee population information shown is for UK employees employed in the Capita plc entity.
- Taxable benefits were £0 in 2021 but £839 and £16 for David Lowden and Sir Ian Powell in 2022 respectively. The increases are therefore shown as 100%. Taxable benefits were £0 in 2022 but £567, £567 and £1,021 for Georgina Harvey, Brian McArthur-Muscroft and Janine Goodchild in 2023 respectively. The increases are therefore shown as 100%.

## I Directors' remuneration report *continued*

### CEO pay ratio

The table below compares the single total figure of remuneration for the CEO with that of the Group's employees who are paid at the 25<sup>th</sup> percentile (lower quartile), 50<sup>th</sup> percentile (median) and 75<sup>th</sup> percentile (upper quartile) of its UK employee population.

Year	Method	25 <sup>th</sup> percentile pay ratio	50 <sup>th</sup> percentile pay ratio	75 <sup>th</sup> percentile pay ratio
<b>2023</b>	<b>Option B</b>	<b>33:1</b>	<b>23:1</b>	<b>17:1</b>
2022 <sup>1</sup>	Option B	78:1	57:1	37:1
2021 <sup>1</sup>	Option B	49:1	38:1	24:1
2020 <sup>1</sup>	Option B	61:1	44:1	29:1
2019	Option B	41:1	25:1	14:1

1. In accordance with the relevant disclosure regulations, the 2020, 2021 and 2022 CEO single figures and associated pay ratios have been updated to reflect LTIP values based on the share prices at the relevant vesting dates.

The 2023 remuneration figures for the employee at each quartile were determined with reference to the financial year ending 31 December 2023. 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.

A full-time and full-year equivalent total pay and benefits figure for 2023 was calculated for each quartile point employee using the single figure methodology. This was also sense checked against a sample of employees with hourly pay rates either side of the identified individuals to ensure that the appropriate representative employee was selected. 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.

The table below sets out the 2023 full-time equivalent salary and total pay and benefits for the three identified quartile point employees:

2023	25 <sup>th</sup> percentile (P25)	Median (P50)	75 <sup>th</sup> percentile (P75)
Salary	£23,112	£32,659	£46,592
Total pay and benefits	£24,586	£34,292	£48,372

The committee recognises that the 2023 ratios are significantly lower than last year (c.55% decrease) for the following reasons:

- No bonus was paid in respect of 2023 (this compares to an annual bonus award of £897,600 for 2022).
- No RSA will vest in 2024 (this compares to a value of £98,978 in respect of the 2020 LTIP which vested in 2023).

The pay ratios have fluctuated since reporting commenced in 2019, primarily as a result of variability in incentive outcomes for the CEO.

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 historical LTIP/current RSAs) 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. For these reasons, the committee considers that the median CEO pay ratio is representative of the UK employee base.

### Gender pay gap reporting

The Company's 2023 gender pay gap data will be available on the government website <https://gender-pay-gap.service.gov.uk> from April 2024.

### Relative importance of the spend on pay

The table below shows the spend on employee costs in the 2023 and 2022 financial years, compared with dividends:

	2023 £m	2022 £m	% change
Employee costs	<b>1,636.5</b>	1,758.1	-6.9%
Dividends	–	–	–

## Directors' remuneration report *continued*

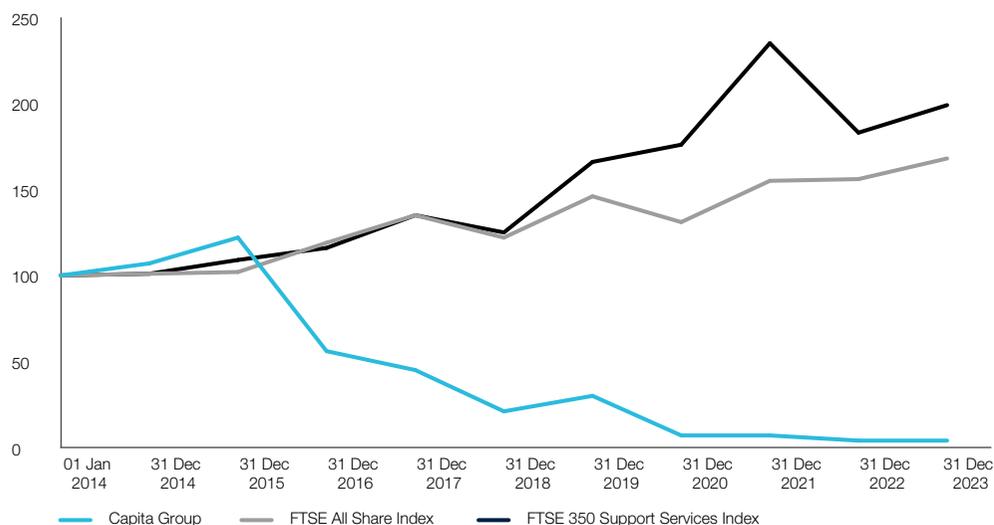
### Performance graph and CEO pay

The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All-Share Index and the FTSE 350 Support Services Index over the past 10 years, 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 for 2023 and the previous nine years are shown in the table below based on the single-figure methodology.

#### Total shareholder return rebased at 100

Source: Datastream (a LSEG product)



The annual bonus payout and LTIP/RSA vesting percentage (in respect of the estimated/actual value at vesting in respect of the year ending just prior to the vest date) are also shown for this year.

Year	CEO – single figure of total remuneration	Annual bonus (vs max opportunity)	Long-term incentive (vs max opportunity)
<b>2023</b>	<b>£804,875</b>	<b>0%</b>	<b>0%</b>
2022	£1,799,964	60%	15%
2021	£1,185,415	24.8%	12.5%
2020	£1,196,582	0%	60%
2019	£789,678	0%	0%
2018	£2,014,209	85%	0%
2017	£741,376	0%	0%
2016	£682,958	0%	0%
2015	£2,520,428	50%	71.4%
2014	£2,558,998	100%	67.2%

Note: the vesting percentages for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2015. For 2014, this is the actual vesting for the LTIP as there is no DAB maturity in 2014. 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. Where relevant, the CEO single figures have been updated to reflect the value of the LTIPs based on the share price at the vesting date (rather than an estimate of the share price at vesting).

### Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 5 March 2024.

**Georgina Harvey**  
Chair

Remuneration Committee

5 March 2024

## I Directors' report

# Directors' report

The Directors present their report, together with the audited accounts for the 52 weeks ended 31 December 2023.

### Group activities

Capita exists to create better outcomes for all its stakeholders. Our business model is based upon being a leading provider of business process services driven by data, technology and people. We deliver innovative solutions to simplify the connections between businesses and customers, and between government and citizens. We partner with clients to transform their businesses and services. A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1 to 64. The operational and financial performance of its divisions are detailed on pages 14 to 21.

### Results and dividends

The Group's reported loss before tax amounted to £(106.6m) from continued operations (2022 profit before tax: £61.4m). As previously announced, the directors do not recommend the payment of a final dividend (2022: nil). The total dividend for the year was nil (2022: 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.

### Share capital

At 5 March 2024, the number of ordinary shares of 2 1/15 p 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	1,701,273,523	100%
Treasury shares	0	0%
Total voting rights	1,701,273,523	100%
Employee Benefit Trust (EBT) shares <sup>1</sup>	16,762,775	1%

1. Shares held in the EBT are used for satisfying employee share options.

During the year ended 31 December 2023, 17,000,000 new ordinary shares were issued. These shares were allotted to the EBT in order that the EBT can satisfy the exercise of options pursuant to the Company's share schemes. Options exercised pursuant to the Company's share schemes were satisfied by the transfer of 9,496,440 shares from the EBT. No new ordinary shares have been allotted under the Company's share option schemes since the end of the financial year to the date of this report. 41,137 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 close on 29 December 2023 was 22p. The highest share price in the year was 44.86p and the lowest was 15.28p.

The Company was authorised by shareholders at the 2023 AGM to replace the existing authority (as granted by shareholders at the Annual General Meeting held on 10 May 2022) for Directors to allot new shares that represent not more than one third of the issued share capital of the Company. No shares were allotted under that authority during the financial year. The Company is seeking to renew this authority at the forthcoming AGM, within the limits set out in the notice of that meeting. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting and in line with the recommendations of the Pre-Emption Group.

On 11 May 2023, shareholders granted authority for the Company to purchase up to 168,427,352 ordinary shares. This authority will expire at the conclusion of the 2024 AGM and the Board will seek approval to renew this authority at the 2024 AGM. No shares were purchased during 2023.

### Rights and restrictions attaching to shares

Under the Company's Articles, 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 allow directors, in their absolute discretion, to 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.

## I Directors' report *continued*

### Major shareholders

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure Guidance and Transparency Rules (DTR) are published via a Regulatory Information Service. At 31 December 2023, the Company had received notification of the following interests in voting rights pursuant to Chapter 5 of the DTR.

Shareholder	Number of shares	% of voting rights at 31 December 2023	Number of shares direct	Number of shares indirect
Schroders plc	323,226,980	19.00	–	323,226,980
RWC Asset Management LLP	272,035,310	15.99	272,035,310	–
Marathon Asset Management Limited	81,375,445	4.83	–	81,375,445

1. Percentages are shown as a percentage of the Company's total voting rights as at the date the Company was notified of the change in holding.

On 2 February 2024, notification in accordance with the DTRs was received from Schroders plc that it held indirectly 323,598,246 shares, being 19.02% of voting rights.

At 5 March 2024, no further notifications had been received under the DTRs in relation to interests in the Company's shares.

### 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 the Company and any directions given by special resolution, including the Company's power to repurchase its own shares.

The Company's Articles 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 borrowing facilities provided by banks and has issued loan notes to financial investors. The borrowing facilities contain change of control provisions 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 similar change of control provisions which are likely to require the Group to offer to prepay the notes in full if there is a change in control of Capita plc.

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.

### Appointment, reappointment, and retirement of directors

Directors are appointed and may be removed in accordance with the Articles of Association (Articles) 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 elect or re-elect each director will therefore be proposed at the AGM on 21 May 2024.

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 they are 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.

### Directors' indemnities

As permitted by its Articles, 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 AGM together with directors' service contracts.

### Conflicts of interests

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 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.

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.

## I Directors' report *continued*

### Employment policies, employee development and engagement

Information on the Group's employment policies, including for disabled persons, and information on employee development, consultation and engagement is included in the responsible business sections on pages 32 to 37 and the engaging with our stakeholders section on page 45.

### Political donations

The Group did not make any political donations or incur any political expenditure during the year (2022: nil).

### Greenhouse gas emissions

Details of the Group's greenhouse gas (GHG) emissions, including metrics and methodology, are set out on pages 40 to 42 of the strategic report.

### Going concern and viability statement

The viability statement is detailed in full on page 64. The directors have assessed the viability of the Group over the three-year period to 31 December 2026, 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 and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period of the viability assessment.

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 2 to 64. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described

on pages 22 to 28. In addition, section 4 in the financial statements on pages 193 to 206 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 2023, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements.

The Board monitors closely the Group's funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. In addition, to support the going concern assumption, the Board conducts a robust assessment of the Group's financial projections for the foreseeable future, considering also the committed facilities available to the Group. The Board has considered risks to the projections under a severe but plausible downside. This includes the potential adverse financial impacts resulting from the following risks: revenue growth falling materially short of plan; operating profit margin expansion not being achieved; targeted cost savings delayed and/or not delivered; additional inflationary cost impacts which cannot be passed on to customers; unforeseen operational issues leading to contract losses and cash outflows, volatility in interest rates; non-availability of the Group's non-recourse trade receivables financing facility; and unexpected financial costs linked to incidents such as data breaches and/or cyber-attacks.

The Board has considered the mitigations, under the direct control of the Group, that could be implemented to address the financial impact should these risks materialise. These mitigations include reductions or delays in capital investment, and substantially reducing (or removing in full) bonus and incentive payments. Taking these mitigations into account, the Group's financial forecasts, in a severe but plausible downside scenario, demonstrate sufficient liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 30 June 2025.

Reflecting the continued benefits from the transformation programme delivered over the last few years and the Portfolio non-core business disposal programme completed in January 2024, coupled with the Board's ability to implement the above mitigations should the severe but plausible downside materialise, the Board has concluded that the Group and Parent Company will continue in operation and meet their liabilities as they fall due over the period to 30 June 2025.

Accordingly, the directors have formed the judgement that it is appropriate to prepare the consolidated financial statements on the going concern basis. The Board's assessment is set out in more detail in Section 1 of the consolidated financial statements.

**+** Read more in the auditor's report on pages 125 to 146

## I Directors' report *continued*

### Directors' statement of disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware: and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

### Anti-bribery and corruption

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

### 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 218 to 228. FRS 101 applies IFRS as adopted by the UK with certain disclosure exemptions. No objections have been received from shareholders.

### 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 to 64 comprise the management report.

#### Strategic report

The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 December 2023 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 Company has chosen, in accordance with section 414C (11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its strategic report that would otherwise be required to be disclosed in this Directors' report.

The information that fulfils the requirements of the strategic report can be found on pages 2 to 64, and includes an indication of future likely developments in the Company, details of important events and the Company's business goals, strategy and business model.

### Additional disclosures

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

	Pages
Events after the balance sheet date	217
Future developments	8 to 21
Research and development	22 to 28
Financial instruments and financial risk management	193 to 206
Greenhouse gas emissions	41 and 42
Corporate governance report, including the corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.	72 to 78
Colleague engagement	45
Stakeholder engagement	45 to 47
Section 172 statement	45 to 48

For the purposes of LR 9.8.4R, and 9.8.6R the following information is located as set out below:

Listing Rule	Subject	Pages
9.8.4 (1)	Capitalisation of interest	201
9.8.4 (12–13)	Shareholder waiver of dividends	119
9.8.6(8)	Climate-related financial disclosures consistent with TCFD 41 to 44	50 to 56

## I Directors' report *continued*

### Statement of Directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and Accounts 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 UK-adopted international accounting standards and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, 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 the Group's 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, relevant and reliable and, in respect of the parent Company financial statements only, prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent Company financial statements, state whether applicable UK accounting

standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;

- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine 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 complies 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.

In accordance with Disclosure Guidance and Transparency Rule (DTR) 4.1.16R, the financial statements will form part of the annual financial report prepared under DTR 4.1.17R and 4.1.18R. The auditor's report on these financial statements provides no assurance over whether the annual financial report has been prepared in accordance with those requirements.

### Responsibility statement of the directors in respect of the annual financial report

We 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; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

#### Claire Denton

Chief General Counsel and Company Secretary

5 March 2024

# Financial statements

## Financial statements

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## I KPMG LLP's Independent Auditor's Report

# KPMG LLP's Independent Auditor's Report

### To the members of Capita plc

#### 1. Our opinion is unmodified

In our opinion:

- the financial statements of Capita plc give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023, and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### What our opinion covers

We have audited the Group and Parent Company financial statements of Capita plc ("the Company") for the year ended 31 December 2023 included in the Annual Report, which comprise:

##### Group (Capita plc and its subsidiaries)

The consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes, including the accounting policies in sections 1 to 6 to the Group financial statements.

##### Parent Company (Capita plc)

The company balance sheet, company statement of changes in equity and the related notes, including the accounting policies in section 7 to the Parent Company financial statements.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion and matters included in this report are consistent with those discussed and included in our reporting to the Group Audit and Risk Committee ("ARC").

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.

## I KPMG LLP's Independent Auditor's Report *continued*

### 2. Overview of our audit

**Factors driving our view of risks** Going concern remains a Key audit matter. The Group continued its Portfolio disposal programme during FY23, and completed it with the final disposal in January 2024. Refinancing of debt also occurred in FY23. However, the Group generated a significant cash outflow in FY23, and performance in FY24 is underpinned by a major restructuring programme to reduce costs and to make the Group more efficient. Consistent with FY22, the risk is focused on the judgement taken in reaching the conclusion of no material uncertainty, and the adequacy of the accompanying disclosures.

There continues to be a significant difference between the Group's market capitalisation (based upon the share price at the reporting date, and adjusted for the fair value of net debt), and the sum-of-the-parts recoverable amount of the CGUs of the Group, determined using the FVLCOD method. In FY23, the significant risk associated with goodwill impairment is specific to the Experience cash generating unit ("CGU"). In FY22, a risk also existed over certain of the Portfolio CGUs which were subject to the Group's disposal programme.

The risks associated with revenue recognition (focused upon variations or modifications for the Group's long-term contracts) and the capitalisation and recoverability of contract assets both remain stable.

Following the cyber incident in March 2023, the identification, measurement and disclosure of actual and potential costs has resulted in considerable audit effort. Whilst we do not consider this a significant audit risk, due to the extent of procedures performed, we have included this as a new Key audit matter for FY23.

For the Parent Company, recoverability of investments in, and amounts due from, its subsidiaries remains a Key audit matter, owing to the materiality of these balances and the estimation uncertainty of the underlying cash flow forecasts used to determine recoverable amount.

**Audit committee interaction** During the year, the ARC met 6 times. KPMG are invited to attend all ARC meetings and are provided with an opportunity to meet with the ARC in private sessions without the Executive Directors being present. For each Key audit matter, we have set out communications with the ARC in section 4, including matters that required particular judgement for each. The matters included in the Audit and Risk Committee Chair's report on pages 90 to 92 are materially consistent with our observations of those meetings.

**Our independence** We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.

We have not performed any non-audit services during FY23 or subsequently which are prohibited by the FRC Ethical Standard.

We were first appointed as auditor by the shareholders for the year ended 31 December 2010. The period of total uninterrupted engagement is for the 14 financial years ended 31 December 2023.

The Group engagement partner is required to rotate every 5 years. As these are the second set of the Group's financial statements signed by Ian Griffiths, he will be required to rotate off after the FY26 audit.

The average tenure of partners responsible for component audits as set out in section 7 is 4 years, with the shortest being 2 and the longest being 5.

Key audit matters ("KAMs")	Vs FY22	Item
Going Concern	↔	4.1
Impairment of Goodwill	↔	4.2
Revenue Recognition	↔	4.3
Capitalisation and Recoverability of contract assets	↔	4.4
Identification, measurement, and disclosure of actual and potential costs related to the cyber incident	+	4.5
Recoverability of the Parent Company's investments in, and amounts due from, its subsidiaries.	↔	4.6

Total audit fee	£5.4m
Audit related fees (including interim review)	£0.3m
Other assurance services	£0.2m
Non-audit fee as a % of total audit and audit related fee %	3.5%
Date first appointed	18 August 2010
Uninterrupted audit tenure	14 years
Next financial period which requires a rotation	2030
Tenure of Group engagement partner	2 years
Average tenure of component signing partners	4 years

## I KPMG LLP's Independent Auditor's Report *continued*

**Materiality**  
(Item 6 below)

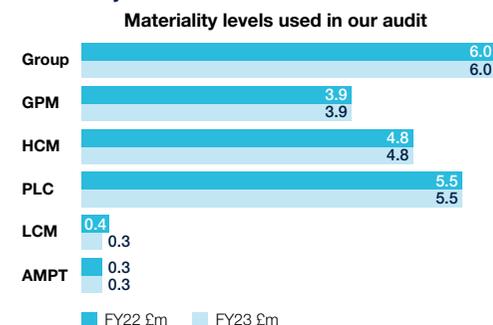
The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

We have determined overall materiality for the Group financial statements as a whole at £6.0m (FY22: £6.0m) and for the Parent Company financial statements as a whole at £5.5m (FY22: £5.5m).

Consistent with FY22, we determined that Group revenue of £2,814.6m, normalised by excluding revenue in relation to business exits of £172.5m, as disclosed in note 2.8, remains the benchmark for the Group, of which it represents 0.23% (FY22: 0.21%). This reflects the continuing volatility in profit before tax from continuing operations, with total revenues providing a more stable measure year on year. Total revenue is also a significant focus for management and external stakeholders.

Materiality for the Parent Company financial statements was determined by reference to total Company assets and represents 0.17% of the Company's total assets (FY22: 0.15%).

### Materiality levels used in our audit



**Group** Group materiality  
**GPM** Group performance materiality  
**HCM** Highest component materiality  
**PLC** Parent Company statutory materiality  
**LCM** Lowest component materiality  
**AMPT** Audit misstatement posting threshold

**Group scope**  
(Item 7 below)

We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements, the type of procedures to be performed at these components and the extent of involvement required from our component auditors around the world.

Of the Group's components we subjected 13 (FY22: 15) to full scope audits and performed specific risk-focused audit procedures over revenue on 1 component (FY22: 1).

The components within the scope of our work accounted for the percentages illustrated opposite.

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We consider the scope of our audit, as communicated to the Audit and Risk Committee, to be an appropriate basis for our audit opinion.

### Coverage of Group financial statements

	FY23	FY22
Total revenue	88%	81%
Total profits and losses	80%	79%
Total assets	92%	89%

**The impact of climate change on our audit**

We have considered the potential impacts of climate change on the financial statements as part of planning our audit. This included the business sectors the Group operates in, the assets and liabilities the Group holds on its balance sheet, and the ways in which the Group maintains and develops its client relations and supplier engagement and manages its people.

As part of our audit, we have made enquiries of management to understand the extent of the potential impact of climate change risk on the Group's financial statements. We have performed a risk assessment of how the impact of climate change may affect the financial statements and our audit. Taking into account the nature of the Group's operations, our assessment is that the climate related risks to the Group's business, strategy and future results did not have a significant impact on our Key audit matters.

We have also read the Board's Task Force on Climate-related Financial Disclosure ("TCFD") statement in the front half of the annual report and considered consistency with the financial statements and our audit knowledge.

## I KPMG LLP's Independent Auditor's Report *continued*

### 3. Going concern, viability and principal risks and uncertainties

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could cast significant doubt over their ability to continue as a going concern from the date of approval of the financial statements to 30 June 2025 ("the going concern period").

#### Going concern

An explanation of how we evaluated management's assessment of going concern is set out in the related Key audit matter in section 4.1 of this report.

#### Our conclusions

Our conclusions based on those procedures described in section 4.1 of this report are:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in section 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period; and
- The related statement under the Listing Rules set out on page 64 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Parent Company will continue in operation.

#### Disclosures of emerging and principal risks and longer-term viability

##### Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Corporate Governance statement on page 94 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the risk management and internal control disclosures describing these risks and how emerging risks are identified and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement set out on page 64 under the Listing Rules.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

#### Summary of our conclusions

We found the directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable.

#### Our reporting

We have nothing material to add or draw attention to in relation to these disclosures.

We have concluded that these disclosures are materially consistent with the financial statements and our audit knowledge.

## I KPMG LLP's Independent Auditor's Report *continued*

### 4. Key audit matters

#### What we mean

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

We include below the Key audit matters in decreasing order of audit significance together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members, as a body, may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

#### 4.1 Going concern (group and parent company)

Financial Statement Elements	Our assessment of risk vs FY22	Our findings
Going concern disclosures with no material uncertainties – section 1 to the Group financial statements	 Our assessment is that the risk is similar to FY22. The risk continues to be focused on the judgement taken in reaching the conclusion of no material uncertainty, and adequacy of the accompanying disclosures.	<p>FY23: We found the Group's judgement that there was no material uncertainty to be disclosed, to be <b>balanced</b>.</p> <p>We found the going concern disclosure in section 1 without any material uncertainty to be <b>proportionate</b>.</p> <p>FY22: We found the Group's judgement that there was no material uncertainty to be disclosed, to be <b>balanced</b>.</p> <p>We found the going concern disclosure in section 1 without any material uncertainty to be <b>proportionate</b>.</p>

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.1 Going concern (group and parent company) *continued*

Description of the Key Audit Matter	Our response to the risk
<p><b>Subjective Judgement</b></p> <p>The Group continued its Portfolio disposal programme during FY23, and completed it with the final disposal in January 2024, to generate cash proceeds. The Group was also successful in refinancing debt during FY23. However, the Group generated a significant cash outflow in FY23, and performance in FY24 is underpinned by a major restructuring programme to reduce costs and to make the Group more efficient. Consistent with FY22, the risk is focused on the judgement taken in reaching the conclusion of no material uncertainty.</p> <p><b>Disclosure quality</b></p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Parent Company's business model and how those risks might affect the Group's and Parent Company's financial resources or ability to continue operations from the date of approval of these financial statements through to 30 June 2025 ("the going concern period").</p> <p>The risks most likely to adversely affect the Group's and Parent Company's available financial resources over this period include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• An inability to achieve the growth targets in the Group's business plan.</li> <li>• The inability to achieve, or delays related to, cost savings following the announcement of the Group's restructuring programme.</li> </ul>	<p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures to address the risk included:</p> <p><b>Our sector experience:</b> We assessed the projections and assumptions by reference to our knowledge of the business and general market conditions including the potential risk of management bias. We critically assessed whether economic headwinds in particular inflation risks, have been sufficiently factored in the forecast cash flows, along with the risks and uncertainties associated with the Group's customers, suppliers and workforce.</p> <p>We considered the risk factors as set out by the Board in the Principal Risks section of the annual report and accounts, and where relevant assessed whether these were sufficiently taken into consideration in the projections prepared to support the base case and the downside risks applied.</p> <p><b>Test of detail:</b> We critically assessed the cash flow forecasts by considering the appropriateness of key assumptions used in preparing those projections, with a specific focus on the revenue growth assumptions of cost savings derived from the Group's restructuring programme. We evaluated these via enquiries with each of the divisional Finance Directors, the Chief Executive Officer, and Chief Financial Officer, and inspected the Board's plans and associated papers. We benchmarked the key assumptions behind the cashflow forecasts to third party evidence, and growth vs economic forecasts in relation to specific risks.</p> <p><b>Historical comparisons:</b> We assessed the ability of the Group to accurately forecast by comparing historical results to forecasts for key metrics. We assessed the most recent years' performance against budget, including sales growth and cost reductions and challenged the assumptions over the going concern period based on historical performances.</p> <p><b>Funding assessment:</b> We read the Revolving Credit facility ("RCF") agreement to understand the terms including covenant requirements and any restrictions in the use of funds. We re-performed the key financial covenants calculations for 30 June 2024 and 2025 and 31 December 2024, assessing compliance at these dates.</p> <p>We considered the adjustments made in the adjusted EBITDA for the covenant calculations, considering the appropriateness compared to the loan agreements and historical accepted practice with the current lenders. In addition, we inspected the correspondence between the Company and the private placement lenders that set out the proposed items to be excluded in the adjusted EBITDA definition and compared these against the items included in the covenant calculations.</p> <p><b>Sensitivity analysis:</b> We critically challenged the downside sensitivities to ensure that these represented severe but plausible scenarios based on our knowledge of the business, the associated risk exposure and we considered the most recent trading results to form a holistic view of the Group.</p> <p><b>Evaluating directors' intent:</b> We evaluated the achievability of the actions the directors consider they would take to improve the position should the risks in the severe but plausible scenario materialise, which included reductions in discretionary spend and capex investment, taking into account the extent to which the directors can control the timing and outcome of these. This included consideration of the nature and quantum of historical cost savings delivered and the feasibility of implementing these over the going concern period.</p>

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.1 Going concern (group and parent company) *continued*

#### Description of the Key Audit Matter

- Adverse impact from inflationary pressures, such as interest rates.
- A significant unexpected downturn in performance in one of the Group's businesses.

There are also less predictable but realistic second order impacts, such as business disruption in the event of a cyber incident, or adverse changes in UK government policy.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

#### Our response to the risk

**Stress scenario:** We also developed a more stressed scenario than the severe but plausible scenario prepared by the Directors. In this more stressed scenario, we then assessed the plausibility of the additional mitigations identified by the Directors that could be taken to ensure that liquidity headroom and covenant compliance is maintained throughout the going concern period in a more stressed scenario. Our assessment included consideration of whether these mitigations were within the control of the Directors and could be implemented in the timeframe required.

**Assessing transparency:** We assessed whether the matters included in the going concern disclosure give a full and accurate description of the directors' assessment, including the judgements made, identified risks and mitigating actions.

#### Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Going concern period of assessment.
- Assessment of the level of refinancing risk faced by the Group.
- Assessment of the risk and potential mitigations in the downside case, including directors' intent and the extent to which mitigating actions are within their control, should risks materialise.
- Assessment of historical forecasting accuracy and current performance.

#### Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- The level of severity in the downside assumptions and if the proposed mitigations are executable and within control of the Group.

#### Our findings

We found the Group's judgement that there was no material uncertainty to be disclosed, to be balanced (FY22: balanced).

We found the going concern disclosure in section 1 without any material uncertainty to be proportionate (FY22: proportionate).

### 4.2 Impairment of goodwill

#### Financial Statement Elements

	Our assessment of risk vs FY22		Our findings
	FY23	FY22	
Goodwill (Total as per financial statements)	<b>£495.7m</b>	£605.9m	<b>FY23: balanced</b> FY22: balanced

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.2 Impairment of goodwill *continued*

#### Description of the Key Audit Matter

##### Forecast-based valuation

We consider the carrying value of goodwill and goodwill impairment to be a significant audit risk. This reflects the inherent uncertainty involved in forecasting future cash flows, which are the basis of the assessment of recoverability.

The focus of our procedures was the Experience CGU (goodwill carrying value of £209.3m, FY22: £209.8m) as this CGU was most sensitive to changes in the underlying assumptions, such as planned revenue growth and the benefits of the cost reduction programme not being achieved. In FY22, a risk also existed over certain of the Portfolio CGUs which were subject to the Group's disposal programme.

In the current period the estimated recoverable amount was measured using a fair value less costs of disposal (FVLCD) methodology, which represented a change from the value in use methodology applied previously. The appropriate application of the methodology requirements for FVLCD and Value in Use to determine the recoverable amount formed part of the risk.

Uncertainty in relation to the current macro-economic environment and the execution risk associated with delivery of cost savings from the ongoing cost restructuring programme may further impact the Group's activities and performance and renders precise forecasting of the underlying cashflows challenging.

There continues to be a significant difference between the Group's market capitalisation (based upon the share price at the reporting date, and adjusted for the fair value of net debt), and the sum-of-the-parts recoverable amount of the CGUs of the Group, determined using the FVLCD method.

The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the recoverable amount had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we concluded that reasonably possible changes to the recoverable amount would not be expected to result in material impairment.

#### Our response to the risk

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

**Tests of detail:** We tested the principles and integrity of the Group's discounted cash flow model. We compared the cash flows used in the impairment model to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit and assessed if these cash flows were reasonable.

**Historical comparison:** We assessed the historical accuracy of the forecasts used in the Group's impairment model by considering actual performance against prior year budgets, recognising the impacts of the current macro-economic environment. We also assessed the forecast revenue growth with reference to the most recent results for 2022 and 2023, and evaluated the assumed impact on future cashflows from the ongoing cost restructuring programme.

**Benchmarking assumptions:** We used external data and our own internal valuation models to evaluate the key inputs and assumptions for growth.

**Sensitivity analysis:** We performed sensitivity and break-even analyses for the key inputs and assumptions and identified those cash-generating units we considered most sensitive to impairment.

**Comparing valuations:** As an overall stand-back test we compared the sum of the discounted cash flows to the Group's market capitalisation and assessed the rationale for the differences. We also compared the implied share price derived from the recoverable amount at the year end to the Company's share price throughout 2023 and assessed the reasonableness of the factors identified by the Board to explain the differences.

**Methodology implementation:** We assessed the appropriateness of the methodology used in the current period, including consideration of the estimate made in respect of costs of disposal, and whether the forecast benefits from future phases of the restructuring programme qualified for inclusion in the value in use model.

**Assessing transparency:** We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgements made and assumptions over the recoverability of goodwill, assessing the level of detail included in the disclosures.

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.2 Impairment of goodwill *continued*

Description of the Key Audit Matter	Our response to the risk
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#### Disclosure quality

The financial statements (note 3.4) disclose the key assumptions underlying the goodwill impairment calculation and the sensitivity of the calculation to changes in these assumptions.

There is a risk that the disclosures presented are not sufficient to explain the key assumptions that drive the valuations, and the key sensitivities that the Board has considered. This is particularly important given the current uncertainty surrounding the macro-economic environment.

#### Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Our determination of whether a significant risk remains in 2023, and our conclusions on the appropriateness of the assumptions in the valuation models.

#### Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- The cash flow forecasts, in particular those in respect of cost savings expected from the delivery of the restructuring programme, were deemed to be a significant assumption for the estimate.
- The determination of the basis to estimate the recoverable amount of the CGU.
- Adequacy of sensitivity disclosures and the assessment as to what would constitute a reasonably possible downside scenario for each CGU.

#### Our findings

We found the Group's conclusion that there is no impairment of Experience CGU goodwill to be balanced (FY22: balanced).

We found the Group's disclosures in the description of the assumptions and estimates to be proportionate (FY22 finding: proportionate) and disclosures of the sensitivity of the valuation of goodwill to changes in those assumptions and estimates to be proportionate (FY22 finding: proportionate).

### 4.3 Revenue recognition

Financial Statement Elements	Our assessment of risk vs FY22		Our findings
	FY23	FY22	
Long-term contractual revenue	<b>£2,104.0m</b>	£2,236.2m	<b>FY23: balanced</b>
Deferred Income	<b>£538.3m</b>	£640.7m	FY22: balanced



Risk remains stable vs FY22, reflecting the volume and magnitude of contractual changes in the period.

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.3 Revenue recognition *continued*

#### Description of the Key Audit Matter

##### Subjective Judgement

The Group has many complex and bespoke contract arrangements which can span many years and involve the provision of more than one performance obligation. These long-term contracts are held within the Public Service and Experience divisions of the Group.

Significant contract variations or modifications may give rise to judgement as to the impact for revenue recognition. These can arise throughout the year.

In the event of a full or partial termination, judgement arises in determining the effective date to trigger re-profiling of deferred income held, particularly where services are being handed back or across to another provider.

Professional standards require us to make a rebuttable presumption that the fraud risk associated with revenue recognition is a significant risk. The incentive/pressures on management to achieve bonus targets and/or market consensus increase the risk of fraudulent revenue recognition. The opportunity is considered to apply to these long-term contracts, given the factors noted above.

##### Disclosure quality

There is a risk that the disclosures presented are not sufficient to explain the revenue recognition accounting policies to enable the users of the financial statements to understand how key judgements are applied.

#### Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Assessment of judgements linked to contract modifications and estimates in the year.
- Adequacy of accompanying disclosures in respect to revenue recognition in notes 2.1 and 2.2 to the financial statements.

#### Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- Timing of accounting for contract modifications and basis for revenue recognition applied across the long-term contract portfolio.

#### Our findings

In determining the treatment of revenue recognition, the Group has applied accounting policies based on the requirements of IFRS15. In applying these policies there is room for judgement and we found that within that the Group's judgement was balanced (FY22: balanced). We found the disclosures associated with the IFRS15 policies to be proportionate (FY22: proportionate).

#### Our response to the risk

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

**Tests of detail:** We obtained and inspected a sample of the contractual agreements to understand the contract terms and conditions that underpin the revenue and the profit recognition assumptions and to identify conditions under which variable revenue can arise. For the major contracts selected through our scoping exercise, where relevant, we also assessed the accounting papers prepared by the Group that set out the key judgements to apply.

Where contract negotiations are ongoing in relation to variable consideration, we made enquiries on the current status with those involved in the discussions and by reference to the associated signed contract or any variation amendments. Where significant variable consideration had been recognised, we obtained and inspected the contractual agreements to understand the contract terms and conditions that underpin the revenue recognition assumptions. Where relevant we inspected correspondence with customers or other supporting documentation in relation to the variations or scope change.

We identify contracts where there has been a significant modification, termination, or partial termination, through our inquiries with the Group, and corroboration through our inspection of the contract models. We assessed the contract terms including any correspondence from the customer, to challenge the effective date of the modification or termination. We also challenged the judgements applied as to whether, in the case of a partial termination, any deferred income should be recognised immediately or spread forward by assessing the inter dependencies of the performance obligations, and the initial contractual terms.

We challenged whether the key contract judgements made by the Board are appropriate based upon the underlying contractual terms and evidence obtained.

**Assessing transparency:** We considered the disclosures in the financial statements to check that these were sufficient and provided proportionate detail of the revenue and profit recognition policies and of the key judgements applied. This included an assessment of whether notes 2.1 and 2.2 set out the impacts arising from the accounting policies applied in relation to the long-term contracts provided by the Group.

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.4 Capitalisation and recoverability of contract assets

Financial Statement Elements		Our assessment of risk vs FY22		Our findings
	FY23	FY22	↔	
Non-Current Contract Fulfilment Assets ("CFA")	£257.0m	£263.0m		<b>FY23: balanced</b>
Onerous Contract Provisions ("OCP")	£43.3m	£52.8m		FY22: balanced

#### Description of the Key Audit Matter

##### Accounting application

A contract fulfilment asset ("CFA") is recorded for costs incurred on a contract or an anticipated contract that generate or enhance the resources of an entity that will be used in satisfying future obligations under the contract.

##### Subjective estimate

Note 2.1 sets out the outsourcing model operated by the Group and explains how typically the early stages of a contract ('pre-inflection') will reflect a period when the contract fulfilment assets are created as the contract delivery is established. Judgement may be required in determining whether the costs incurred are appropriate to be capitalised, and this leads to a risk that costs may be incorrectly capitalised as a result of error or fraud. A risk of fraud arises as there may be an incentive to capitalise items to achieve bonus targets or market consensus.

Where a contract is not performing as expected, the costs capitalised may not be recoverable and an impairment of the asset should be recorded.

Where no CFA has been recorded or the CFA has already been fully impaired, there is also a risk that the contract may be onerous, and an onerous contract provision ("OCP") should be recorded.

The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of contract assets and completeness and accuracy of the onerous contract provision have a high degree of estimation uncertainty, with a potential range of possible outcomes greater than our materiality for the financial statements as a whole.

##### Disclosure quality

There is a risk that the disclosures presented are not adequate to explain the capitalisation criteria that are used to assess whether items of expense should be recorded as a contract asset, or the key judgements applied in assessment of contract lifetimes and any onerous contract provisions required.

#### Our response to the risk

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

**Tests of detail:** We tested on a sample basis the costs capitalised as CFAs by reference to the criteria set out in the Group's accounting policy. For the costs sampled we obtained third party support, or for internally generated time we obtained the relevant costing rates and records, to support the basis of capitalisation.

We assessed on a sample basis the useful economic lives applied to the CFAs and evaluated the expected contract life by reference to the contract terms or where appropriate any agreed extensions to the original contract.

**Sensitivity analysis:** We considered the assumptions within the business plans and lifetime assessments, checking that onerous conditions had been recognised appropriately, particularly on contracts that have had a poor performance in the current year and those contracts that are in a pre-inflection phase of transformation. We assessed any ongoing impact of inflation on the key assumptions, together with any contract modifications agreed with the customer in response to the economic environment, or more widely as part of commercial discussions.

In determining whether a CFA should be impaired or OCPs should be recorded, we assessed contract profitability forecasts by analysing historic performance relative to contractual commitments over its full term. This included assessing critically the assumptions over future costs including projected savings and the actions required to achieve these by comparison to historical cost savings achieved on similar projects. Our assessment considered the levels of uncertainty contained in the forecasts, the extent to which Company actions alone could mitigate risks and any dependencies on the customer or other third parties. This assessment covered a sample of contracts including those identified by the Board as being high risk and comprising the major contracts in a pre-inflection phase.

**Assessing transparency:** We considered the disclosures in the financial statements to assess whether these provided sufficient detail of the criteria used to evaluate whether expenditure should be recorded as a CFA, and on judgements taken in respect of recoverability of CFAs, and recognition and measurement of OCPs.

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.4 Capitalisation and recoverability of contract assets *continued*

#### Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Assessment of judgements linked to contracts, potentially at risk of becoming onerous, or where an onerous contract provision is already held. This included consideration of recoverability of any CFA held.
- Adequacy of accompanying disclosures in respect to contract assets in notes 2.1 and 3.1.3 to the financial statements.

#### Areas of particular auditor judgement

We identified the following as the area of particular auditor judgement:

- Assessment of the need for onerous contract provision and/or CFA impairment for Major Contracts sensitive to forecast assumptions made in respect to remaining contract term.

#### Our findings

We found the assumptions and estimates used to assess the CFAs to be recognised, and to determine the need for any impairment of CFAs and recognition of OCPs, to be balanced (FY22: balanced).

We found that the Group's disclosures in note 2.1 and 3.1.3 to be proportionate (FY22: proportionate).

### 4.5 Identification, measurement, and disclosure of actual and potential costs related to the cyber incident

Financial Statement Elements		Our assessment of risk vs FY22	Our findings
	FY23		
Cyber incident expense disclosure (Total as per financial statements)	<b>£25.3m</b>	<b>+</b> Newly identified risk for FY23	<b>FY23: balanced</b>

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.5 Identification, measurement, and disclosure of actual and potential costs related to the cyber incident *continued*

Description of the Key Audit Matter	Our response to the risk
<p><b>Presentation appropriateness</b></p> <p>The Group was subject to a major cyber incident in March 2023, and has incurred considerable cost associated with investigating, rectifying and remediating the impacts of the incident. The Directors determined that costs related to the cyber incident should be excluded from adjusted results, the reasoning behind this presentation is set out in section 2.4 of the financial statements.</p> <p>The identification of items of expense that meet the Group's definition of being related to the cyber incident requires judgement as to whether the expense fulfil the criteria and principles that the Group established.</p> <p><b>Disclosure quality</b></p> <p>Judgement is required to assess whether actual or potential claims, litigation or fines arising from regulatory oversight, or from impacted parties, should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities.</p> <p>Where the impact of any present obligations is not probable but more likely than remote, or a probable obligation that cannot be measured reliably, and thus no provision is recorded, failure to adequately disclose the nature of these circumstances within the financial statements may distort the reader's view as to the potential risks faced by the Group.</p> <p>We do not consider the identification, measurement, and disclosure of actual and potential costs related to the cyber incident to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the financial statements as a whole and the extent of audit effort devoted to this area, this is considered to be one of the areas which had the greatest effect on our overall Group audit.</p>	<p>We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures to address the risk included:</p> <p><b>Assessing principles:</b> We examined the accounting policy implemented by the Group in respect of the determination of costs related to the cyber incident for exclusion from adjusted results. We assessed the nature of the categories of expense included within the policy to determine if they were related to the cyber incident.</p> <p><b>Tests of detail:</b> We tested on a sample basis the costs identified as related to the Cyber incident by reference to the criteria set out in the Group's accounting policy. For the costs sampled we obtained third party support for the cost and, based upon inspection of the support, evaluated if the cost met the Group's accounting policy for exclusion from the adjusted results.</p> <p><b>Enquiry of lawyers:</b> We enquired of both internal and external Counsel in respect of the status of interactions with regulatory authorities and actual or potential claims from impacted parties.</p> <p><b>Our cyber expertise:</b> We used our own cyber security specialists to provide expert knowledge on assessing the initiatives that the Group has taken to improve cyber security.</p> <p><b>Assessing transparency:</b> We assessed whether the basis of the adjusted financial information is clearly and accurately described and consistently applied. We evaluated the adequacy of the Group's contingent liability disclosures in the financial statements in accordance with accounting standards.</p>

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.5 Identification, measurement, and disclosure of actual and potential costs related to the cyber incident *continued*

#### Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Our initial and updated risk assessment in respect of this matter.
- Assessment of the application of the Group's accounting policy to identify costs related to the cyber incident for exclusion.
- Adequacy of accompanying disclosures in respect of contingent liabilities.

#### Areas of particular auditor judgement

We do not consider the identification, measurement, and disclosure of actual and potential costs related to the cyber incident to be at a high risk of significant misstatement, or to be subject to a significant level of judgement.

#### Our findings

We found that the judgement taken in applying the Group's accounting policy to classify certain items of expense as being related to the cyber incident to be balanced and disclosure of the items of expense provided in the annual report and accounts taken as a whole to be proportionate. We found that section 6.2 provides proportionate disclosure of the contingent liabilities in respect of potential claims, litigation or fines.

### 4.6 Recoverability of the parent company's investment in, and amounts due from, its subsidiaries

Financial Statement Elements	Our assessment of risk vs FY22		Our findings
	FY23	FY22	
Investment carrying value	£996.0m	£994.3m	Risk is considered stable against FY22. <b>FY23: proportionate</b> FY22: proportionate
Amounts due from subsidiaries	£2,270.3m	£2,559.2m	

#### Description of the Key Audit Matter

##### Forecast-based assessment

The carrying amount of the Parent Company's investment in, and amounts due from, its subsidiaries represent 30.2% and 68.9% (FY22: 27.3% and 70.4%) of its total assets respectively.

The risk of irrecoverability is focused upon certain investments and amounts due from subsidiaries within the Experience division.

The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting future cash flows, especially forecast revenue growth.

Uncertainty in relation to the current macro-economic environment and the execution risk associated with delivery of cost savings from the ongoing cost restructuring programme may further impact the Group's activities and performance and renders precise forecasting of the underlying cashflows challenging.

##### Our response to the risk

We performed the tests below rather than seeking to rely on the Parent's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

**Tests of detail:** For amounts due from subsidiaries, we first assessed if the counterparty was in default as demonstrated through holding a net liability position. This was based upon the subsidiary's balance sheet as utilised within the consolidation. For investments, we assessed if there was an indicator of impairment by comparing the carrying amount with the subsidiary's net assets within the Group consolidation, being an approximation of its minimum recoverable amount. Where required, we then proceeded to assess the probability of recovery based upon the entity level discounted cashflow forecasts and the recoverable amount of any indirect subsidiaries. We assessed consistency with the cashflows utilised in the goodwill impairment, deferred tax and going concern models.

**Historical comparison:** For the balances identified as at greatest risk of irrecoverability, we assessed the historical accuracy of the forecasts used by considering actual performance against prior year budgets, recognising the impacts of the current macro-economic environment. We assessed the forecast revenue and EBITDA growth with reference to the most recent results for 2022 and 2023 and evaluating the assumed impact on future cashflows from the ongoing cost restructuring programme.

## I KPMG LLP's Independent Auditor's Report *continued*

### 4.6 Recoverability of the parent company's investment in, and amounts due from, its subsidiaries *continued*

#### Description of the Key Audit Matter

The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the recoverable amount of the Parent Company's investment in, and amounts due from, its subsidiaries had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we concluded that reasonably possible changes to the recoverable amount would not be expected to result in material impairment.

#### Disclosure quality

The financial statements (note 7.3.3) disclose the key assumptions underlying the investment impairment calculation and the sensitivity of the calculation to changes in these assumptions.

There is a risk that the disclosures presented are not sufficient to explain the key assumptions that drive the valuations, and the key sensitivities that the Board has considered. This is particularly important given the current uncertainty surrounding the macro-economic environment.

#### Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Assumptions taken in respect to cash flow forecasts, including forecast revenue growth assumption for certain investments.
- Assessment of the judgement taken in respect of the recoverability of intercompany receivables.

#### Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- For investments where the recoverable amount was determined through the FVLCD basis, the revenue growth within the cash flow forecasts were deemed to be a significant assumption for the estimate.

#### Our findings

We found the Parent Company's assessment of the recoverability of the investment in, and amounts due from, subsidiaries to be balanced (FY22: balanced). We found the Company's disclosures of the recoverability of investment held by the Parent Company in, and amounts due from, subsidiaries to be proportionate (FY22: proportionate).

#### Our response to the risk

**Evaluating directors' intent:** We assessed the directors' intention in respect of the recovery of intercompany debt and based the recoverable amount on their intention of expected cashflows.

**Sensitivity analysis:** We performed sensitivity analyses for the key inputs and assumptions which included forecast revenue growth. We considered the likelihood of such scenarios materialising and the impact this would have upon the recoverable amount.

**Assessing transparency:** We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgements made and assumptions over the recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries, checking that the sensitivity disclosures provided enough detail and proportionate information to inform a reader of the accounts.

## I KPMG LLP's Independent Auditor's Report *continued*

### 5. Our ability to detect irregularities, and our response

#### Fraud – identifying and responding to risks of material misstatement due to fraud

<b>Fraud risk assessment</b>	<p>To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.</p> <p>Our risk assessment procedures included:</p> <ul style="list-style-type: none"> <li>• Enquiring of Directors, the ARC, internal audit and inspection of the Group's documented high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;</li> <li>• Reading Board and ARC meeting minutes;</li> <li>• Considering remuneration incentive schemes and performance targets for management and Directors including the short and long-term incentive plans for management remuneration;</li> <li>• Using analytical procedures to identify any unusual or unexpected relationships; and</li> <li>• Using our own forensic specialists to assist us in identifying fraud risks. This included attending the Risk Assessment and Planning Discussion, with the engagement partner and engagement key team members, and assisting with designing relevant audit procedures to respond to the identified fraud risks.</li> </ul>
<b>Risk communications</b>	<p>We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to component audit teams of relevant fraud risks identified at the Group level and requests to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group level.</p>
<b>Fraud risks</b>	<p>As required by auditing standards, taking into account possible pressures to meet profit targets and market consensus and continued ongoing economic uncertainty, and using our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:</p> <ul style="list-style-type: none"> <li>• The risk that Group and component management may be in a position to make inappropriate accounting entries for long-term contracts; and</li> <li>• The risk of bias in accounting estimates and judgements such as contract modifications and terminations.</li> </ul>
<b>Link to KAMs</b>	<p>We also identified fraud risks related to inappropriate capitalisation and recoverability of contract fulfilment assets. Further details in respect of inappropriate capitalisation and recoverability of contract fulfilment assets are set out in section 4 of this report.</p>
<b>Procedures to address fraud risks</b>	<p>We performed procedures including:</p> <ul style="list-style-type: none"> <li>• Identifying journal entries and other adjustments to test for all full scope components, based on risk criteria specific to the component, and comparing the identified entries to supporting documentation. These included where relevant, those posted by senior finance personnel and those posted to unusual accounts, including unexpected account combinations of entries to revenue, expenses, cash and borrowings.</li> <li>• Assessing whether the judgement made in accounting estimates are indicative of a potential bias, including those over revenue recognition, capitalisation and recoverability of contract assets and impairment of goodwill.</li> </ul>

## I KPMG LLP's Independent Auditor's Report *continued*

### 5. Our ability to detect irregularities, and our response *continued*

#### Laws and regulations – identifying and responding to risks of material misstatement relating to compliance with laws and regulations

<b>Laws and regulations risk assessment</b>	<p>We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence; and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.</p> <p>As some of the Group's subsidiaries are regulated, our assessment of risks involved gaining an understanding of the control environment including these entities' procedures for complying with regulatory requirements.</p>
<b>Risk communications</b>	<p>We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group level.</p>
<b>Direct laws context and link to audit</b>	<p>The potential effect of these laws and regulations on the financial statements varies considerably. The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.</p>
<b>Most significant indirect law/regulation areas</b>	<p>The Group is subject to many laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of some of the Group's subsidiaries' license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, data protection, employment law, regulatory capital and liquidity (in relation to the financial and regulated nature of certain of the Group's activities in the Life &amp; Pensions and Employee Benefits sectors). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.</p>
<b>Link to KAMs</b>	<p>We also identified a Key audit matter related to impact of the cyber incident, more specifically in regards to whether actual or potential claims, litigation or fines arising from regulatory oversight, or from impacted parties, should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities. Further details are set out in section 4 of this report.</p>
<b>Context</b>	
<b>Context of the ability of the audit to detect fraud or breaches of law or regulation</b>	<p>Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.</p>

## I KPMG LLP's Independent Auditor's Report *continued*

### 6. Our determination of materiality

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

<p><b>£6.0m</b> FY22: <b>£6.0m</b> <b>Materiality for the Group financial statements as a whole</b></p>	<p><b>What we mean</b> A quantitative reference for the purpose of planning and performing our audit.</p> <p><b>Basis for determining materiality and judgements applied</b> Materiality for the Group financial statements as a whole was set at £6.0m (FY22: £6.0m). Consistent with FY22, this was determined with reference to a benchmark of Group revenue of £2,814.6m, normalised by excluding revenue in relation to business exits of £172.5m, as disclosed in note 2.8. Use of total revenue as the benchmark reflects the continuing volatility in profit before tax from continuing operations, with total revenues providing a more stable measure year on year. Total revenue is also a significant focus for management and external stakeholders.</p> <p>Our Group materiality of £6.0m was determined by applying a percentage to the normalised Group revenue. When using this benchmark, KPMG's approach for listed entities considers a guideline range 0.5% – 1% of the measure. In setting overall Group materiality, we applied a percentage of 0.23% (FY22: 0.21%) to the benchmark which is below the lower end of the expected range. This acknowledges the low historic margin of the Group.</p> <p>Materiality for the Parent Company financial statements was set at £5.5m (FY22: £5.5m), determined by reference to total Company assets and represents 0.17% of the Company's total assets (FY22: 0.15%).</p>
<p><b>£3.9m</b> (FY22: <b>£3.9m</b>) <b>Performance materiality</b></p>	<p><b>What we mean</b> Our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.</p> <p><b>Basis for determining performance materiality and judgements applied</b> Performance materiality for the Group and the Parent Company was set at 65% (FY22: 65%) of materiality for the financial statements as a whole, which equates to £3.9m (FY22: £3.9m) for the Group and £3.6m (FY22: £3.6m) for the Parent Company. We applied this percentage in our determination of performance materiality based on the number and level of identified misstatements and control deficiencies during the prior period.</p>
<p><b>£0.3m</b> (FY22: <b>£0.3m</b>) <b>Audit misstatement posting threshold</b></p>	<p><b>What we mean</b> This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud.</p> <p>This is also the amount above which all misstatements identified are communicated to the ARC.</p> <p><b>Basis for determining the audit misstatement posting threshold and judgements applied</b> We set our audit misstatement posting threshold at 5% (FY22: 5%) of our materiality for the Group financial statements. We also report to the ARC other identified misstatements that warrant reporting on qualitative grounds.</p>

The overall materiality for the Group financial statements of £6.0m (FY22: £6.0m) compares as follows to the main financial statement caption amounts:

	Group revenue		Group profit before tax		Total Group assets	
	FY23	FY22	FY23	FY22	FY23	FY22
Financial statement caption	<b>£2,814.6m</b>	£3,014.6m	<b>£(106.6)m</b>	£61.4m	<b>£1,997.8m</b>	£2,552.6m
Group materiality as % of caption	<b>0.21%</b>	0.20%	<b>5.63%</b>	9.77%	<b>0.30%</b>	0.24%

## I KPMG LLP's Independent Auditor's Report *continued*

### 7. The scope of our audit

#### Group scope What we mean

How the Group audit team determined the procedures to be performed across the Group.

The Group has 165 (FY22: 209) reporting components. To determine the work performed at the reporting component level, we identified those components which we considered to be of individual financial significance and those remaining components on which we required procedures to be performed to provide us with the evidence we required in order to conclude on the Group financial statements as a whole.

We determined individually financially significant components as those contributing at least 7.5% (FY22: 7.5%) of total assets or 7.5% (FY22: 7.5%) of total revenue or 7.5% (FY22: 7.5%) of the Group profit before tax. We selected total assets, total revenue, and profit before tax because these are the most representative of the relative size of the components. We identified 5 (FY22: 4) components as individually financially significant components and performed full scope audits on these components.

In addition to the individually financially significant components, we identified 3 (FY22: 3) components as significant, owing to significant risks of material misstatement affecting the Group financial statements and performed full scope audits on these components.

In addition, to enable us to obtain sufficient appropriate audit evidence for the Group financial statements as a whole, we selected 6 (FY22:9) components on which to perform procedures. Of these components, we performed full scope audits for 5 components (FY22: 8) and performed specific risk-focused audit procedures over revenue on 1 component (FY22: 1). The latter was not financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the Group's results, with the prior year comparatives indicated in brackets:

Scope	Number of components	Range of materiality applied	Group revenue	Total profits and losses that made up Group PBT	Total assets
Full scope audit	13 (15)	£5.5m – £0.3m (£5.5m – £0.4m)	87% (81%)	78% (79%)	92% (89%)
Specified audit procedures	1 (1)	£3m (£2m)	1% (N/A)	2% (N/A)	N/A (N/A)
<b>Total</b>	<b>14 (26)</b>		<b>88% (81%)</b>	<b>80% (79%)</b>	<b>92% (89%)</b>

The remaining 12% (FY22: 19%) of total Group revenue, 20% (FY22: 21%) of total profits and losses that made up Group profit before tax and 8% (FY22: 11%) of total Group assets is represented by 151 (FY22: 193) reporting components. For these components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

Full scope audits were performed by component auditors at 11 reporting components in the United Kingdom, Switzerland, and Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company (FY22: 13 in the United Kingdom, Switzerland, and Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company). Specified audit procedures were performed by the Group audit team in the United Kingdom (FY22: 1 in Guernsey).

The Group audit team has performed testing of IT Systems and certain controls in the shared service centre on behalf of the components and communicated the results of these procedures to the component teams. This is because of the centralised systems and processes in place across the Group.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, as detailed in the table above, having regard to the mix of size and risk profile of the Group across the components.

The scope of the audit work performed was predominantly substantive as we placed limited reliance upon the Group's internal control over financial reporting.

## I KPMG LLP's Independent Auditor's Report *continued*

### 7. The scope of our audit *continued*

<b>Group audit team oversight</b>	<p><b>What we mean</b></p> <p>The extent of the Group audit team's involvement in component audits.</p> <p>In working with component auditors, we:</p> <ul style="list-style-type: none"> <li>• Held planning calls with component audit teams to discuss the significant areas of the audit relevant to the components, including the Key audit matters of revenue recognition and capitalisation and recoverability of contract assets</li> <li>• Issued Group audit instructions to component auditors on the scope of their work, including specifying the minimum procedures to perform in their audit of Journals and long-term contracts</li> <li>• Visited the UK component audit teams in-person as the audit progressed to understand and challenge the audit approach and organised frequent video conferences with the partners and directors of the Group and component audit teams, including those based overseas. At these meetings the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component audit teams.</li> <li>• Inspected the component audit teams' key work papers (in person and/or using remote technology) to evaluate the quality of execution of the audits of the components with a particular focus on work performed by the components on Group-level significant risks and Key audit matters.</li> </ul>
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### 8. Other information in the annual report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

#### All other information

##### Our responsibility

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

##### Our reporting

Based solely on that work we have not identified material misstatements or inconsistencies in the other information.

#### Strategic report and Directors' report

##### Our responsibility and reporting

Based solely on our work on the other information described above we report to you as follows:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### Directors' Remuneration Report

##### Our responsibility

We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

##### Our reporting

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

## I KPMG LLP's Independent Auditor's Report *continued*

### 8. Other information in the annual report *continued*

#### Corporate Governance disclosures

##### Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit and Risk Committee, including the significant issues that the Audit and Risk Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are also required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

##### Our reporting

Based on those procedures, we have concluded that each of these disclosures is materially consistent with the financial statements and our audit knowledge.

We have nothing to report in this respect.

#### Other matters on which we are required to report by exception

##### Our responsibility

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

##### Our reporting

We have nothing to report in these respects.

## I KPMG LLP's Independent Auditor's Report *continued*

### 9. Respective responsibilities

#### Directors' responsibilities

As explained more fully in their statement set out on page 123, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

The Company is required to include these financial statements in an annual financial report prepared under Disclosure Guidance and Transparency Rule 4.1.17R and 4.1.18R. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with those requirements.

### 10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Ian Griffiths**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants

15 Canada Square  
London  
E14 5GL  
5 March 2024

## I Financial statements

# Financial statements

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## I Consolidated financial statements

### Consolidated income statement for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
<b>Revenue</b>	2.2	<b>2,814.6</b>	3,014.6
Cost of sales		<b>(2,222.5)</b>	(2,298.6)
<b>Gross profit</b>		<b>592.1</b>	716.0
Administrative expenses	2.3, 2.4, 2.8	<b>(644.1)</b>	(795.6)
<b>Operating loss</b>	2.3, 2.4, 2.8	<b>(52.0)</b>	(79.6)
Share of results in associates and investment gains		—	5.8
Net finance expense	4.3	<b>(52.2)</b>	(31.7)
(Loss)/gain on disposal of businesses	2.8	<b>(2.4)</b>	166.9
<b>(Loss)/profit before tax</b>	2.4	<b>(106.6)</b>	61.4
Income tax (charge)/credit	2.6	<b>(74.0)</b>	14.6
<b>Total (loss)/profit for the year</b>		<b>(180.6)</b>	76.0
<b>Attributable to:</b>			
Owners of the Company		<b>(178.1)</b>	74.8
Non-controlling interests	4.7	<b>(2.5)</b>	1.2
		<b>(180.6)</b>	76.0
<b>Earnings per share</b>	2.7		
– basic		<b>(10.60)p</b>	4.47 p
– diluted		<b>(10.60)p</b>	4.40 p
Adjusted operating profit	2.4	<b>106.5</b>	78.0
Adjusted profit before tax	2.4	<b>56.5</b>	49.8
Adjusted basic earnings per share	2.7	<b>1.70 p</b>	2.64 p
Adjusted diluted earnings per share	2.7	<b>1.70 p</b>	2.60 p

The accompanying notes are an integral part of these consolidated financial statements.

## I Consolidated financial statements *continued*

### Consolidated statement of comprehensive income for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
<b>Total (loss)/profit for the year</b>		<b>(180.6)</b>	76.0
<b>Other comprehensive expense</b>			
<b>Items that will not be reclassified subsequently to the income statement</b>			
Actuarial loss on defined benefit pension schemes	5.2	(68.2)	(8.9)
Tax effect on defined benefit pension schemes	2.6	15.9	2.0
(Loss)/gain on fair value of investments		(0.1)	0.2
<b>Items that will or may be reclassified subsequently to the income statement</b>			
Exchange differences on translation of foreign operations		(2.9)	(0.6)
Exchange differences realised on business disposals		0.2	0.3
(Loss)/gain on cash flow hedges	4.2.4	(8.5)	11.5
Cash flow hedges recycled to the income statement	4.2.4	(2.0)	(5.1)
Tax effect on cash flow hedges	2.6	2.6	(1.6)
<b>Other comprehensive expense for the year net of tax</b>		<b>(63.0)</b>	(2.2)
<b>Total comprehensive (expense)/income for the year net of tax</b>		<b>(243.6)</b>	73.8
<b>Attributable to:</b>			
Owners of the Company		(241.0)	72.6
Non-controlling interests	4.7	(2.6)	1.2
		<b>(243.6)</b>	73.8

The accompanying notes are an integral part of these consolidated financial statements.

## I Consolidated financial statements *continued*

### Consolidated balance sheet At 31 December 2023

	Notes	2023 £m	2022 £m
<b>Non-current assets</b>			
Property, plant and equipment	3.2	80.0	101.1
Intangible assets	3.3	90.0	106.0
Goodwill	3.4	495.7	605.9
Right-of-use assets	3.5	208.5	249.5
Investments in associates		0.2	0.2
Contract fulfilment assets	3.1.3	257.0	263.0
Financial assets	4.5	97.2	118.2
Deferred tax assets	2.6	140.3	189.5
Employee benefits	5.2	32.7	42.7
Trade and other receivables	3.1.1	12.3	15.8
		<b>1,413.9</b>	<b>1,691.9</b>
<b>Current assets</b>			
Financial assets	4.5	28.1	23.6
Income tax receivable		11.6	9.9
Disposal group assets held for sale	2.8.2	38.1	—
Trade and other receivables	3.1.1	350.7	430.4
Cash	4.5.4	155.4	396.8
		<b>583.9</b>	<b>860.7</b>
<b>Total assets</b>		<b>1,997.8</b>	<b>2,552.6</b>
<b>Current liabilities</b>			
Overdrafts	4.5.4	95.0	219.6
Trade and other payables	3.1.2	425.9	492.5
Disposal group liabilities held-for-sale	2.8.2	9.7	—
Income tax payable		1.3	—
Deferred income	2.2.3	501.3	585.1
Lease liabilities	4.4,4.5	51.1	55.6
Financial liabilities	4.5	10.8	84.6
Provisions	3.6	101.6	75.7
		<b>1,196.7</b>	<b>1,513.1</b>

	Notes	2023 £m	2022 £m
<b>Non-current liabilities</b>			
Trade and other payables	3.1.2	8.5	15.1
Deferred income	2.2.3	36.2	55.6
Lease liabilities	4.4,4.5	312.3	341.9
Financial liabilities	4.5	267.5	212.6
Deferred tax liabilities	2.6	7.2	6.9
Provisions	3.6	48.6	51.6
Employee benefits	5.2	5.9	3.1
		<b>686.2</b>	<b>686.8</b>
<b>Total liabilities</b>		<b>1,882.9</b>	<b>2,199.9</b>
<b>Net assets</b>		<b>114.9</b>	<b>352.7</b>
<b>Capital and reserves</b>			
Share capital	4.6	35.2	34.8
Share premium	4.6	1,145.5	1,145.5
Employee benefit trust shares	4.6	(0.7)	(4.2)
Capital redemption reserve		1.8	1.8
Other reserves		(15.0)	(4.5)
Retained deficit		(1,053.8)	(843.2)
		<b>113.0</b>	<b>330.2</b>
<b>Equity attributable to owners of the Company</b>		<b>113.0</b>	<b>330.2</b>
Non-controlling interests	4.7	1.9	22.5
<b>Total equity</b>		<b>114.9</b>	<b>352.7</b>

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of directors on 5 March 2024 and signed on its behalf by:

**Adolfo Hernandez**  
Chief Executive Officer

**Tim Weller**  
Chief Financial Officer

## I Consolidated financial statements *continued*

### Consolidated statement of changes in equity for the year ended 31 December 2023

	Share capital £m	Share premium £m	Employee benefit trust shares £m	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent £m	Non-controlling interests £m	Total equity £m
At 31 December 2021	34.8	1,145.5	(8.0)	1.8	(890.6)	(9.0)	274.5	22.0	296.5
Impact of change in accounting standards – amendments to IAS 37 <sup>1</sup>	—	—	—	—	(21.7)	—	(21.7)	—	(21.7)
At 1 January 2022 on adoption of IAS 37	34.8	1,145.5	(8.0)	1.8	(912.3)	(9.0)	252.8	22.0	274.8
Profit for the year	—	—	—	—	74.8	—	74.8	1.2	76.0
Other comprehensive income/(expense)	—	—	—	—	(6.7)	4.5	(2.2)	—	(2.2)
Total comprehensive income for the year	—	—	—	—	68.1	4.5	72.6	1.2	73.8
Share-based payment net of tax effects (note 2.6; note 5.1)	—	—	—	—	5.4	—	5.4	—	5.4
Elimination of non-controlling interest on disposal of businesses (note 2.8.1)	—	—	—	—	—	—	—	(0.3)	(0.3)
Exercise of share options under employee long-term incentive plans (note 4.6; note 5.1)	—	—	3.8	—	(3.8)	—	—	—	—
Dividends paid <sup>2</sup>	—	—	—	—	—	—	—	(0.4)	(0.4)
Movement in put-options held by non-controlling interests	—	—	—	—	(0.6)	—	(0.6)	—	(0.6)
<b>At 31 December 2022</b>	<b>34.8</b>	<b>1,145.5</b>	<b>(4.2)</b>	<b>1.8</b>	<b>(843.2)</b>	<b>(4.5)</b>	<b>330.2</b>	<b>22.5</b>	<b>352.7</b>
Loss for the year	—	—	—	—	(178.1)	—	(178.1)	(2.5)	(180.6)
Other comprehensive expense	—	—	—	—	(52.4)	(10.5)	(62.9)	(0.1)	(63.0)
<b>Total comprehensive expense for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(230.5)</b>	<b>(10.5)</b>	<b>(241.0)</b>	<b>(2.6)</b>	<b>(243.6)</b>
Share-based payment net of tax effects (note 2.6; note 5.1)	—	—	—	—	5.8	—	5.8	—	5.8
Reclassification <sup>3</sup>	—	—	—	—	15.9	—	15.9	(15.9)	—
Purchase of non-controlling interest	—	—	—	—	1.4	—	1.4	(1.4)	—
Exercise of share options under employee long-term incentive plans (note 4.6; note 5.1)	—	—	3.9	—	(3.9)	—	—	—	—
Shares issued (note 4.6)	0.4	—	(0.4)	—	—	—	—	—	—
Dividends paid <sup>2</sup>	—	—	—	—	—	—	—	(0.7)	(0.7)
Movement in put-options held by non-controlling interests	—	—	—	—	0.7	—	0.7	—	0.7
<b>At 31 December 2023</b>	<b>35.2</b>	<b>1,145.5</b>	<b>(0.7)</b>	<b>1.8</b>	<b>(1,053.8)</b>	<b>(15.0)</b>	<b>113.0</b>	<b>1.9</b>	<b>114.9</b>

1. The Group initially applied the amendments to IAS 37 on 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings.

2. No dividends were declared, paid or proposed in 2023 or 2022 on the Parent Company's ordinary shares.

3. During the current year it was identified that the non-controlling interest (NCI) proportion of a goodwill impairment charge, which was recognised in the year ended 31 December 2018, had not been previously allocated within the result for that year attributable to NCI. The NCI proportion of the impairment has been reclassified to the NCI reserve in the current year.

**Share capital** – The balance classified as share capital is the nominal proceeds on issue of the Parent Company's equity share capital, comprising 2 1/15 pence ordinary shares.

**Share premium** – The amount paid to the Parent Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

**Employee benefit trust shares** – Shares held in the employee benefit trust have no voting rights and no entitlement to a dividend.

**Capital redemption reserve** – The Parent Company can redeem shares by repaying the market value to shareholders, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

**Retained deficit** – Net (losses)/profits accumulated in the Group after dividends are paid.

**Other reserves** – This consists of the foreign currency translation reserve deficit of £11.2m (2022: £8.6m deficit) and the cash flow hedging reserve deficit of £3.8m (2022: £4.1m surplus).

**Non-controlling interests (NCI)** – This represents equity in subsidiaries not attributable directly or indirectly to the Parent Company.

The accompanying notes are an integral part of these consolidated financial statements.

## I Consolidated financial statements *continued*

### Consolidated cash flow statement for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
<b>Cash generated from operations</b>	2.9	<b>8.7</b>	117.8
Income tax paid		<b>(7.5)</b>	(7.9)
Interest received		<b>6.2</b>	5.0
Interest paid		<b>(47.7)</b>	(43.0)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(40.3)</b>	71.9
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3.2	<b>(28.8)</b>	(20.6)
Purchase of intangible assets	3.3	<b>(32.8)</b>	(27.3)
Proceeds from sale of property, plant and equipment and intangible assets	2.3, 3.2, 3.3	<b>0.1</b>	0.5
Additions to investments held at fair value through profit and loss		—	(2.4)
Changes to investments at fair value through other comprehensive income		<b>(0.1)</b>	0.2
Capital element of lease rental receipts		<b>6.0</b>	5.8
Deferred consideration from sale of subsidiary undertakings	2.8.1	<b>1.9</b>	—
Total proceeds received from disposal of businesses, net of disposal costs	2.8.1	<b>96.8</b>	463.4
Cash held by businesses when sold	2.8.1	<b>(33.4)</b>	(75.5)
<b>Net cash inflow from investing activities</b>		<b>9.7</b>	344.1

	Notes	2023 £m	2022 £m
<b>Cash flows from financing activities</b>			
Dividends paid to non-controlling interests		<b>(0.7)</b>	(0.4)
Capital element of lease rental payments	2.9.3	<b>(59.1)</b>	(61.8)
Proceeds on issue of private placement loan notes	2.9.3	<b>103.5</b>	—
Cost of cross currency swaps	2.9.3	<b>(1.6)</b>	—
Repayment of private placement loan notes and other finance	2.9.3	<b>(121.5)</b>	(237.4)
Proceeds from cross-currency interest rate swaps	2.9.3	<b>8.5</b>	10.1
Repayment of credit facilities	2.9.3	—	(46.0)
Debt financing arrangement costs	2.9.3	<b>(5.4)</b>	(5.2)
<b>Net cash outflow from financing activities</b>		<b>(76.3)</b>	(340.7)
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(106.9)</b>	75.3
Cash and cash equivalents at the beginning of the year		<b>177.2</b>	101.5
Effect of exchange rates on cash and cash equivalents		<b>(2.7)</b>	0.4
<b>Cash and cash equivalents at 31 December</b>		<b>67.6</b>	177.2
<b>Cash and cash equivalents comprise:</b>			
Cash	4.5.4	<b>155.4</b>	396.8
Overdrafts	4.5.4	<b>(95.0)</b>	(219.6)
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale	2.8	<b>7.2</b>	—
<b>Total</b>		<b>67.6</b>	177.2

Cash generated from operations before business exits	2.9	<b>41.2</b>	98.4
Free cash flow before business exits <sup>1</sup>	2.9	<b>(115.5)</b>	(42.4)

1. From 1 January 2023 free cash flow and free cash flow excluding business exits are presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented.

The accompanying notes are an integral part of these consolidated financial statements.

## I Notes to the consolidated financial statements

### Section 1: Basis of preparation

This section sets out the Group's accounting policies relating to these consolidated financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

This section also includes details of new accounting standards, amendments and interpretations including their effective dates and explanation on the expected impact to the financial position and performance of the Group.

For ease of reference, this symbol has been used to denote any accounting policies included within the notes to these consolidated financial statements:



**Denotes accounting policies**

These financial statements consolidate those of Capita plc (the Company or the Parent Company) and all of its subsidiaries (the Group). Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The principal activities of the Group are given in the strategic report on pages 14 to 21.

These consolidated financial statements of Capita plc for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the directors on 5 March 2024.

These consolidated financial statements are presented in British pounds sterling and all values are rounded to the nearest tenth of a million (£m) except where otherwise indicated.

#### Statement of compliance

These consolidated financial statements have been prepared in accordance with UK-adopted International Financial Reporting Standards (IFRSs) and the Disclosure and Transparency Rules of the UK's Financial Conduct Authority.

#### Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group at 31 December each year. Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, these consolidated financial statements include the results for that part of the reporting year during which Capita plc had control and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the net assets (including goodwill) disposed of. Losses applicable to the non-controlling interests in subsidiaries are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

Investments in associates are accounted for using the equity method. Under the equity method, the investment in the entity is stated as a one line item at cost plus the investor's share of retained post-acquisition profits or losses and other changes in net assets less any impairment.

#### Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2023, the Board is required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties, sensitivities, and mitigations as set out below.

Accounting standards require that 'the foreseeable future' for going concern assessment covers a period of at least twelve months from the date of approval of these financial statements, although those standards do not specify how far beyond twelve months a Board should consider. In its going concern assessment, the Board has considered the period from the date of approval of these financial statements to 30 June 2025 ('the going concern period'), which aligns with a period end and covenant test date for the Group, and has also allowed the Board to assess the liquidity impact of the borrowings that mature in January 2025 and April 2025 (refer to note 4.5.3 to the consolidated financial statements). There are no other debt maturities in the period to 30 June 2025.

The base case financial forecasts used in the going concern assessment are derived from the 2024-2025 business plans as approved by the Board in December 2023.

The going concern assessment considers the Group's sources and uses of liquidity and covenant compliance throughout the period under review. The value of the Group's committed revolving credit facility (RCF) was £260.7m at 31 December 2023 having been extended to 31 December 2026. The original terms of the RCF are substantially unchanged. The value was subsequently reduced to £250m on 23 January 2024 following receipt of proceeds from the disposal of the Group's investment in Fera Science Limited.

In July the Group issued £101.9m equivalent of new private placement loan notes across three tranches: £50m maturing 25 July 2026, USD45m maturing 25 July 2026 and USD23m maturing 25 July 2028, with an average interest rate of 9.45%. The notes rank pari passu with the existing indebtedness of the Group and includes financial covenants determined on the same basis as those under the existing private placement loan notes.

#### Financial position at 31 December 2023

As detailed further in the Chief Financial Officer's review in the strategic report, at 31 December 2023 the Group had net debt of £545.5m (2022: £482.4m), net financial debt (pre-IFRS 16)<sup>1</sup> of £182.1m (2022: £84.9m), available liquidity<sup>1</sup> of £282.3m (2022: £405.2m) and was in compliance with all debt covenants (refer to note 4.1.2 to the consolidated financial statements).

#### Board assessment

##### Base case scenario

Under the base case scenario, the Group's transformation programme and completion of the Portfolio non-core business disposal programme in January 2024 has simplified and strengthened the business and facilitates further efficiency savings enabling sustainable growth in revenue, profit and cash flow over the medium term. When combined with available committed facilities, this allows the Group to manage scheduled debt repayments. The most material sensitivities to the base case are the risk of not delivering the planned revenue growth and efficiency savings following the announcement of the Group's restructuring programme.

The base case projections used for going concern assessment purposes reflect business disposals completed up to the date of approval of these financial statements. The liquidity headroom assessment in the base case projections reflects the Group's existing committed financing facilities and debt redemptions and does not reflect any potential future refinancing. The base case financial forecasts demonstrate liquidity

## I Notes to the consolidated financial statements *continued*

### Section 1: Basis of preparation *continued*

headroom and compliance with all debt covenant measures throughout the going concern period to 30 June 2025.

#### Severe but plausible downside scenario

In considering severe but plausible downside scenarios, the Board has taken account of the potential adverse financial impacts resulting from the following risks:

- revenue growth falling materially short of plan;
- operating profit margin expansion not being achieved;
- targeted cost savings delayed or not delivered;
- additional inflationary cost impacts which cannot be passed on to customers;
- unforeseen operational issues leading to contract losses and cash outflows;
- volatility in interest rates;
- non-availability of the Group's non-recourse trade receivables financing facility; and
- unexpected financial costs linked to incidents such as data breaches and/or cyber-attacks.

The likelihood of simultaneous crystallisation of the above risks is considered by the directors to be low. Nevertheless in the event that simultaneous crystallisation were to occur, the Group would need to take action to mitigate the risk of insufficient liquidity and covenant headroom. In its assessment of going concern, the Board has considered the mitigations, under the direct control of the Group, that could be implemented including reductions or delays in capital investment, and substantially reducing (or removing in full) bonus and incentive payments. Taking these mitigations into account, the Group's financial forecasts, in a severe but plausible downside scenario, demonstrate sufficient liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 30 June 2025.

#### Adoption of going concern basis

Reflecting the continued benefits from the transformation programme delivered over the last few years and the Portfolio non-core business disposal programme completed in January 2024, coupled with the Board's ability to implement appropriate mitigations should the severe but plausible downside materialise, the Group continues to adopt the going concern basis in preparing these consolidated financial statements. The Board has concluded that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period to 30 June 2025.

1. Refer to alternative performance measures in section 8.2 to the financial statements.

#### Foreign currency translation

The functional and presentation currency of Capita plc and its UK subsidiaries is the British pound sterling (£). Transactions in foreign currencies are initially recorded at the functional currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also taken directly to equity. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas operations include the euro, Indian rupee, South African rand, Polish zloty and the US dollar. At the balance sheet date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of Capita plc at the exchange rate ruling on the balance sheet date and their income statements are translated using the weighted average exchange rate for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative foreign currency translation difference recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

#### Current versus non-current classification

The Group presents assets and liabilities in the balance sheet based on whether they are current or non-current.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the balance sheet date; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the balance sheet date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities are classified as non-current.

## I Notes to the consolidated financial statements *continued*

### Section 1: Basis of preparation *continued*

#### Recoverable amount of non-current assets

At each balance sheet date, the Group assesses whether there is any indication that a non-current asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's, or cash-generating unit's, fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

#### Consideration of climate change

The impact of climate change has been considered in the preparation of these consolidated financial statements across a number of areas, including our evaluation of the critical accounting estimates and assumptions which are detailed below, consistent with the risks and opportunities set out in the strategic report on pages 50 to 56. None of these risks had a material effect on the critical accounting estimates and assumptions or on the consolidated financial statements of the Group.

The following areas were considered during the preparation of these consolidated financial statements:

- contract judgements made on the Group's major contracts including contract fulfilment assets;
- going concern and viability of the Group over the relevant respective period;
- cash flow forecasts used in the impairment assessments of non-current assets including the Group's intangible assets such as customer contracts and goodwill;
- carrying value and useful economic lives of property, plant and equipment; and
- the valuation of assets held within the Group's pension schemes.

As current legislation stands, there is currently no material short or medium-term<sup>1</sup> impact expected from climate change on the Group. The Group will continue to monitor its climate strategy and the impact that policies or changes in legislation may have on the estimates the Group makes, and any subsequent impact on assets and liabilities recognised and presented in its consolidated financial statements.

#### Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires the directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the presented periods. Although these judgements and assumptions are based on the directors' best knowledge of the amount, events or actions, actual results may differ.

As described in note 2.1, given the level of judgement and estimation involved in assessing the future profitability of contracts, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and, onerous contract provisions.

#### Judgements

The key areas where significant accounting judgements have been made and which have the most significant effect on the amounts recognised in the consolidated financial statements, are summarised below and set out in more detail in the related note(s):

- Contract accounting (note 2.1):
  - Revenue recognition;
- Capitalisation of contract fulfilment assets (note 3.1.3); and
- Adoption of the going concern basis of preparation (section 1).

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are summarised below and set out in more detail in the related note. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are incorporated into the assumptions when they occur:

- Contract accounting (note 2.1):
  - Impairment of contract fulfilment assets;
  - Customer and onerous contract provisions;
- Deferred tax asset recognition (note 2.6); and
- Measurement of defined benefit pension obligations (note 5.2).

For ease of reference, the symbols below have been used to denote significant accounting judgements and/or significant accounting estimates and assumptions where they occur within the notes to these consolidated financial statements:

**J** Denotes significant accounting judgements

**E** Denotes significant accounting estimates and assumptions

1. As defined in the Task Force on Climate-related Financial Disclosures section of the Strategic Report

## I Notes to the consolidated financial statements *continued*

### Section 1: Basis of preparation *continued*

#### New standards and interpretations adopted

The accounting policies adopted are consistent with those of the previous financial year. In addition, the Group has adopted the new, and amendments to, standards listed below. These amendments were either not applicable or not material to the Group or Parent Company.

International Accounting Standards (IAS/IFRS)	Effective date
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023
International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)	1 January 2023

#### New standards and interpretations not yet adopted

The International Accounting Standards Board (IASB) has issued the following standards, amendments and interpretations with an effective date after the date of these consolidated financial statements. These are effective for annual reporting periods beginning on or after the date indicated:

International Accounting Standards (IAS/IFRS)	Effective date
Classification of liabilities as current or non-current and non-current liabilities with Covenants - Amendments to IAS 1	1 January 2024
Lease Liability in a Sale and Leaseback - Amendments to IFRS 16	1 January 2024
Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7	1 January 2024
Lack of exchangeability - Amendments to IAS 21 <sup>1</sup>	1 January 2025

1. The effective date is based on the standard or amendment issued by the IASB and are still subject to adoption by the UK Endorsement Board.

The Group is assessing the impact of these new standards and the Group's financial reporting will be presented in accordance with these standards from the effective date.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year

This section contains notes related to the financial performance of the Group. These include:

- 2.1 Contract accounting
- 2.2 Revenue including segmental revenue
- 2.3 Operating profit
- 2.4 Adjusted operating profit and adjusted profit before tax
- 2.5 Segmental information
- 2.6 Taxation
- 2.7 Earnings/(loss) per share
- 2.8 Business exits and assets held for sale
- 2.9 Cash flow information

**AP** Denotes accounting policies

**J** Denotes significant accounting judgements

**E** Denotes significant accounting estimates and assumptions

#### Key highlights

##### Reported revenue

**£2,814.6m**

(2022: £3,014.6m)

##### Reported loss before tax

**£(106.6)m**

(2022: profit £61.4m)

##### Adjusted revenue<sup>1</sup>

Aim: Achieve long-term organic revenue growth

**£2,642.1m**

(2022: £2,609.0m)

##### Adjusted profit before tax<sup>1</sup>

Aim: Achieve long-term growth in profit

**£56.5m**

(2022: profit £49.8m)

##### Free cash flow<sup>2</sup>

**£(154.9)m**

(2022: £(31.5)m)

##### Reported basic earnings/(loss) per share (EPS)

**(10.60)p**

(2022: 4.47p)

##### Free cash flow before business exits<sup>1,2</sup>

Aim: Achieve sustainable, long-term positive free cash flow growth generation

**£(115.5)m**

(2022: £(42.4)m)

##### Adjusted basic earnings per share (EPS)<sup>1</sup>

Aim: Achieve long-term growth in EPS

**1.70p**

(2022: 2.64p)

1. Definitions of the alternative performance measures and related Key Performance Indicators (KPIs) can be found in section 8.2.
2. From 1 January 2023 free cash flow excluding business exits is presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented. Refer to note 2.9.2.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

In 2023 the Group's adjusted revenue<sup>1</sup> increased year on year driven by underlying growth from contracts such as the Personal Independence Payments contract in Capita Public Service, indexation and the one-off benefit relating to a commercial settlement in the closed book Life & Pensions business in Capita Experience, offset by the impact of a number of contract losses.

Adjusted profit before tax<sup>1</sup> improved year-on-year reflecting the revenue trends noted above, in particular the commercial settlement in Capita Experience, and a reduction in bonuses and variable pay, offset by increased financing costs.

The higher level of profit was offset by increased working capital outflows, increased capital expenditure and spend following the cyber incident, resulting in free cash outflow before business exits<sup>1</sup> of £115.5m (2022: £42.4m outflow).

The Group had additional cash outflow of £23.1m (2022: £19.5m inflow) arising from those businesses sold in the year, and additional pension deficit payments triggered as a result of these disposals totalling £16.3m (2022: £8.6m).

#### Revenue

Adjusted revenue<sup>1</sup> increased by 1.3% year-on-year as a result of the following:

- **Capita Public Service:** growth was underpinned by indexation, scope increases and improved trading on a number of contracts including the Royal Navy Training contract and the Personal Independence Payments contract. This was offset by contract hand-backs and losses in Local Public Services and non-recurrence of the contract to provide laptops to teachers in Northern Ireland in 2022; and
- **Capita Experience:** growth was driven by improved international trading, indexation, and the one-off benefit relating to a commercial settlement in the closed book Life & Pensions business, offset by contract losses, primarily the loss of the Co-operative Bank contract.

For additional information, which does not form part of these consolidated financial statements, the Chief Financial Officer's review in the strategic report includes information in respect of the changes.

#### Profit before tax

The adjusted profit before tax<sup>1</sup> improved by £6.7m year-on-year to a profit of £56.5m as a result of the profit impact of the following:

- **Capita Public Service:** the beneficial impact of indexation, the scope increases and improved trading on a number of contracts discussed above, offset by the impact of contract exits in Local Public Service;
- **Capita Experience:** reflects the flow through of the revenue benefits noted previously, in particular the closed book Life & Pensions contract settlement, as well as higher interest receipts in our pension business offset by flow through of prior year contract losses in particular the Co-operative Bank and continued attrition in the remaining Life & Pensions business; and
- **Capita plc:** impact of the reallocation of central costs previously allocated to Capita Portfolio to Capita plc in 2022, increased financing cost and the non-recurrence of gains in investments in 2022.

Adjusted profit before tax<sup>1</sup> excludes a number of specific items so users of these consolidated financial statements can more clearly understand the financial performance of the Group. Reported loss before tax was £106.6m (2022: profit £61.4m). The year-on-year reduction has arisen from: a loss on business disposals in 2023 compared with a gain in 2022; and, the costs of the cyber incident and the costs to deliver the announced cost reduction programme. A reconciliation of the adjusted profit before tax<sup>1</sup> to reported loss before tax is detailed in note 2.4.

Reported operating loss for the year was £52.0m (2022: loss £79.6m). Details of items charged/credited in arriving at the reported operating loss can be found in note 2.3.

For additional information, which does not form part of these consolidated financial statements, the Chief Financial Officer's review in the strategic report includes information in respect of the changes.

#### Taxation

The adjusted income tax charge for the year was £31.1m (2022: £4.4m) including £30.4m of current tax (2022: £6.4m). There is a current tax credit arising on pension deficit contributions recognised in other comprehensive income (OCI) rather than the income statement. If the current tax that is flowing through OCI is taken into account, the total current charge is more closely aligned to the current tax payable in respect of the year.

The reported income tax charge of £74.0m on reported loss before tax of £106.6m (2022: reported income tax credit of £14.6m on reported profit of £61.4m), differs from the standard UK weighted average corporation tax rate of 23.5% (2022: 19.0%), primarily due to changes in the accounting estimate of recognised deferred tax assets, unrecognised current year tax losses and non-deductible goodwill impairment. The prior period credit reflected an increase in the recognised deferred tax asset.

#### Earnings per share

Adjusted earnings per share<sup>1</sup> reduced because the increase in adjusted profit before tax<sup>1</sup> was offset by the increase in the adjusted income tax charge year on year as detailed above.

The reduction from reported earnings per share to a reported loss per share reflects the reduction in reported profit before tax noted above, compounded by the swing from a reported income tax credit to an income tax charge as noted above.

#### Dividend

The Board is not recommending the payment of a final dividend (2022: £nil). However, the Board recognises the importance of dividend payments to investors in forming part of their total shareholder return and will consider the payment of dividends when the Group is generating sufficient sustainable free cash flow.

1. Definitions of the alternative performance measures and related Key Performance Indicators (KPIs) can be found in section 8.2.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### Free cash flow before business exits<sup>1</sup>

	2023 £m	2022 £m
Adjusted operating profit to free cash flow excluding business exits <sup>1,2</sup>		
<b>Adjusted operating profit<sup>1</sup></b>	<b>106.5</b>	78.0
Add: depreciation/amortisation and impairment of property, plant and equipment, right-of-use assets and intangible assets	<b>108.1</b>	126.4
<b>Adjusted EBITDA</b>	<b>214.6</b>	204.4
Working capital	<b>(110.7)</b>	(30.7)
Non-cash and other adjustments	<b>(6.5)</b>	(45.3)
<b>Operating cash flow excluding business exits<sup>1</sup></b>	<b>97.4</b>	128.4
<b>Adjusted operating cash conversion<sup>1</sup></b>	<b>45 %</b>	63 %
Pension deficit contributions	<b>(30.0)</b>	(30.0)
Cyber incident	<b>(20.1)</b>	—
Cost reduction programme	<b>(6.1)</b>	—
<b>Cash generated from operations excluding business exits<sup>1</sup></b>	<b>41.2</b>	98.4
Net capital expenditure	<b>(58.9)</b>	(38.0)
Interest/tax paid	<b>(45.1)</b>	(47.5)
Net capital lease payments	<b>(52.7)</b>	(55.3)
<b>Free cash flow excluding business exits<sup>1,2</sup></b>	<b>(115.5)</b>	(42.4)

Adjusted operating cash conversion<sup>1</sup> decreased to 45% (2022: 63%), driven by:

- the reduction in working capital, which reflects the £28.0m benefit in 2022 of a step-up in the usage of the Group's non-recourse facilities in 2022 whereas in 2023 there was a £9.3m reduction in usage, a reduction in the accrual for management bonuses and variable pay, and the non-cash nature of the commercial settlement in the closed book Life & Pensions business in Experience; and
- the lower outflow related to provisions in 2023 reflected in the movement in non-cash and other adjustments.

Cash generated from operations excluding business exits<sup>1</sup> reflects the above, the direct cash flow impact of the cyber incident (£20.1m) announced previously. The £30.0m of pension deficit contributions are in accordance with the deficit funding contribution schedule previously agreed with the scheme trustees as part of the 2020 triennial valuation.

Free cash flow before business exits<sup>1,2</sup> for the year ended 31 December 2023 was an outflow of £115.5m (2022: outflow £42.4m). This reflects the reduction in cash generated from operations and increased capital expenditure on technology across the Group.

1. Definitions of the alternative performance measures and related Key Performance Indicators (KPIs) can be found in section 8.2.
2. From 1 January 2023 free cash flow and free cash flow excluding business exits are presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.1 Contract accounting

At 31 December 2023, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	2023 £m	2022 £m
Long-term contractual revenue	2.2	<b>2,104.0</b>	2,236.2
Deferred income		<b>537.5</b>	640.7
Contract fulfilment assets (non-current)	3.1.3	<b>257.0</b>	263.0
Onerous contract provisions		<b>43.3</b>	52.8

#### Background

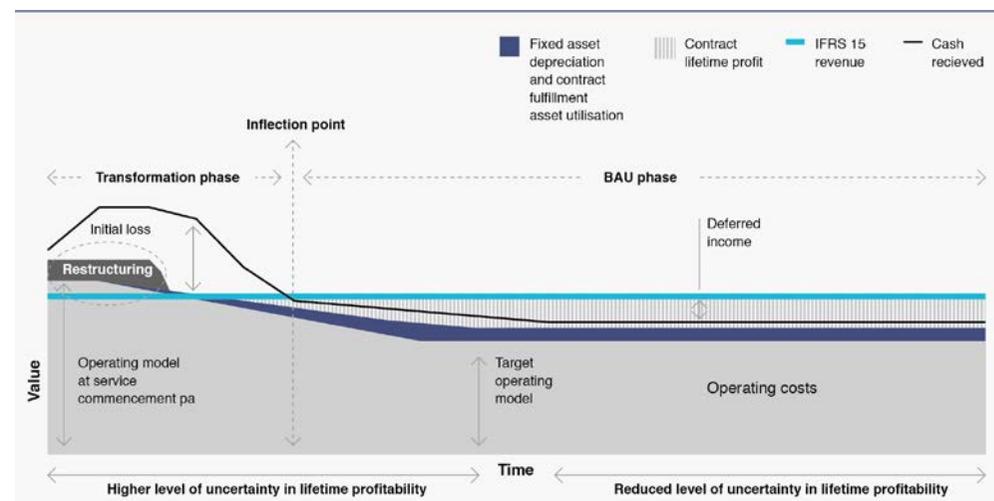
The Group operates diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), representing 75% of Group revenue in 2023 (2022: 74%).

These long-term contracts can be complex in nature given the breadth of solutions the Group offers and the transformational activities involved. Typically, Capita takes a customer's process and transforms it into a more efficient and effective solution which is then operated for the customer. The outcome is a high quality solution that addresses a customer's needs and is delivered consistently over the life of the contract.

The Group recognises revenue on long-term contracts as the value is delivered to the customer, which is generally evenly over the contract term, regardless of any restructuring and transformation activity required to deliver the services to the customer. Capita will often incur greater costs during contract transformation phases with costs diminishing over time as the target operating model is implemented and efficiencies realised. This results in lower profits or losses in the early years of contracts and potentially higher profits in later years as the transformation activities are successfully completed and the target operating model fully implemented (the business as usual (BAU) phase). The inflection point is when the contract becomes profitable.

Non-current contract fulfilment assets are recognised for those costs qualifying for capitalisation. The utilisation of these assets is recognised over the contract term. The timing of cash receipts from customers typically matches when the costs are incurred to transform, restructure and run the service. This results in income being deferred and released when the Group delivers against its obligations to provide services and solutions to its customers.

An example, showing the revenue, cost, profit and cash flow of a typical long-term contract lifecycle is as follows:



#### E Significant accounting estimates and assumptions

Due to the size and complexity of some of the Group's contracts, there are significant judgements to be applied, specifically in assessing: (i) the recoverability of non-current contract fulfilment assets; and (ii) the completeness of the customer and onerous contract provisions. These judgements are dependent on assessing the contract's future profitability and give rise to a key source of estimation uncertainty. It is possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions.

#### J Significant accounting judgements

Significant judgement is exercised by management as to when to recognise revenue from variations or scope changes on long-term contracts. 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. Refer to note 2.2 for the Group's accounting policies.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.1 Contract accounting *continued*

##### Assessing contract profitability

In assessing a contract's future lifetime profitability, management must estimate forecast revenue and costs to both transform and run the service over the remaining contract term. The ability to accurately forecast the outcomes involves estimates in respect of: costs to be incurred; cost savings to be achieved; future performance against any contract-specific key performance indicators (KPIs) that could trigger variable consideration or service credits; outcome of any commercial negotiations; and impact of inflation on the cost base and the indexation of revenue.

The level of uncertainty in the estimated future profitability of a contract is directly related to the stage in the life-cycle of the contract and the complexity of the performance obligations. Contracts in the transformation stage are considered to have a higher level of uncertainty because of:

- the ability to accurately estimate the costs to deliver the transformed process;
- the dependency on the customer to agree to the specifics of the transformation: for example, where they are involved in certifying that the new process or, the new technical solution, designed by Capita meets their specific requirements; and
- the assumptions made to forecast expected savings in the target operating model.

Those contracts which are in BAU tend to have a much lower level of uncertainty in estimating future profitability.

**Recoverability of non-current contract fulfilment assets and completeness of onerous contract provisions**  
Management first assesses whether contract assets are impaired and then further considers whether an onerous contract exists. For half and full year reporting, the Audit and Risk Committee specifically reviews the material judgements and estimates, and the overall approach to this assessment in respect of the Group's major contracts, including comparison against previous forecasts. Major contracts include those that are material in size or risk to the Group's results. An assessment of which contracts are major contracts is performed twice a year, and to enable comparability the prior period amounts below are re-presented to reflect the same scope as the current period. Other contracts are reported to the Audit and Risk Committee as deemed appropriate. These contracts are collectively referred to as 'major contracts' in the remainder of this note.

The major contracts contributed £1.1 billion (2022: £1.1 billion) or 42% (2022: 42%) of Group adjusted revenue. Non-current contract fulfilment assets at 31 December 2023 were £257.0m (2022: £263.0m), of which £125.1m (2022: £109.7m) relates to major contracts with ongoing transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre- and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets were, in aggregate, £52.8m at 31 December 2023 (2022: £42.2m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising during the next financial year. The balance of deferred income associated with these contracts was £109.5m at 31 December 2023 (2022: £116.2m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts. Onerous contract provisions associated with these contracts were £37.3m at 31 December 2023 (2022: £42.5m).

Following these reviews, and reviews of smaller contracts across the business, as outlined in note 3.1.3, non-current contract fulfilment asset impairments of £3.4m (2022: £3.8m) were identified and recognised within adjusted cost of sales, of which £nil (2022: £0.5m) relates to non-current contract fulfilment assets added during the period, and net onerous contract provisions of £7.1m (2022: £1.7m) were identified and recognised in adjusted cost of sales.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded it is reasonably possible, that outcomes within the next financial year may be different from management's current assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £125.1m of non-current contract fulfilment assets relates to major contracts with ongoing transformational activities; and, £52.8m of non-current contract fulfilment assets and £37.3m of onerous contract provisions relate to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract.

Certain major transformation contracts have key milestones during the next twelve months and an inability to meet these key milestones could lead to reduced profitability and a risk of impairment of the associated contract assets. These include contracts with the BBC, Transport for London, Department for Work and Pensions and the City of London Police.

Additional information, which does not form part of these consolidated financial statements, on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the divisional performance review in the strategic report.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.2 Revenue including segmental revenue

##### **AP** Accounting policies

###### Revenue

The Group operates a diverse range of businesses and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15 *Revenue from Contracts with Customers*.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

Revenue is recognised either when the performance obligation in the contract has been performed ('point-in-time' recognition) or 'over-time' as control of the performance obligation is transferred to the customer.

For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements (MSA) or Frameworks not meeting the definition of a contract under IFRS 15 and as such the individual call-off agreements, linked to the MSA, are treated as individual contracts.

The Group enters into contracts which contain extension periods, where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which non-current contract fulfilment assets and capitalised costs to obtain a contract are expensed.

For contracts with multiple components to be delivered such as transformation, transitions and the delivery of outsourced services, management applies judgement to consider whether those promised goods and services are:

- (i) distinct – to be accounted for as separate performance obligations;
- (ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or,
- (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At a contract's inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the contract. This includes an assessment of any variable consideration where the Group's performance may result in additional revenues based on the achievement of agreed Key Performance Indicators (KPIs). Such amounts are only included based on the expected value, or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are already agreed.

After the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or while) those performance obligations are satisfied.

The Group infrequently sells standard products with observable standalone prices due to the specialised services required by customers, consequently the Group applies judgement to determine an appropriate standalone selling price. More frequently, the Group sells customers bespoke solutions, and in these cases the Group typically uses the expected cost-plus margin or a contractually stated price approach to estimate the standalone selling price of each performance obligation.

The Group may offer price step downs during the life of a contract, but with no change to the underlying scope of services to be delivered. In general, any such variable consideration, price step down or discount is included in the total transaction price to be allocated across all performance obligations unless it relates to only one performance obligation in a contract.

For each performance obligation to be recognised over-time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method, the Group recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. This is a faithful depiction of the transfer of services since the service delivered to the customer is unchanged. Where the output method is used, in particular for long-term service contracts where the series guidance is applied, the Group often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimations of: user numbers; service activity levels; or fees collected.

When transfer of control is most closely aligned to Group efforts in delivering the service, the input method is used to measure progress and revenue is recognised in direct proportion to costs incurred. This is a faithful depiction of the transfer of services because costs (or other inputs) most accurately reflect the incremental benefits received by the customer from efforts to date.

If performance obligations in a contract do not meet the over-time criteria, the Group recognises revenue at a point-in-time when the service or good is delivered.

###### Contract modifications

The Group's contracts are often amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new, or changes existing, enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

- a) prospectively as an additional performance obligation (this is typically when new distinct goods or services are provided on an existing contract);
- b) prospectively as a termination of the existing contract and creation of a new contract;
- c) as part of the original contract using a cumulative catch up (this is typically where the modification changes the services provided to date); or,
- d) as a combination of (b) and (c).

In respect of contracts for which the Group has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over-time, the modification will always be treated under either (a) or (b); (d) may arise when a contract has a part-termination and a modification of the remaining performance obligations.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.2 Revenue including segmental revenue *continued*

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end because management needs to determine if a modification has been approved and if it either creates new, or changes existing, enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken through an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management uses judgement to estimate the change in total transaction price. Importantly, any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur. For example, if pricing is subject to indexation based on an external metric (such as the Consumer Price Index (CPI) or the Retail Price Index (RPI)) then the revenue related to the indexation will only be recognised once the relevant indexation is confirmed. Future indexation will not be recognised because it is not highly probable that a significant reversal of an indexation adjustment will not occur.

##### Principal versus agent

The Group has arrangements with some of its customers whereby it needs to determine if it acts as a principal or an agent because more than one party is involved in providing the goods and services to the customer. The Group is a principal if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably: the discretion the Group has in establishing the price for the specified good or service; whether the Group has inventory risk; and whether or not the Group is primarily responsible for fulfilling the promise to deliver the service or good.

This assessment of control requires judgement particularly in relation to certain service contracts. An example is the provision of certain recruitment and learning services where the Group may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Group is acting as a principal, revenue is recorded on a gross basis. Where the Group is acting as an agent, revenue is recorded on a net basis, recognising only the commission or fee earned as revenue.

##### Licences

Software licences delivered by the Group can either be right to access (active) or right to use (passive) licences, which determines the timing of revenue recognition. The assessment of whether a licence is active or passive involves judgement.

The key determinant of an active licence is whether or not the Group is required to undertake continuing activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive (or negative) impacts resulting from those changes. Where the Group is responsible for any maintenance, continuing support, updates and upgrades, then the sale of the initial software is not distinct. All other licences which have significant standalone functionality are treated as passive licences.

When software upgrades are sold as part of the software licence agreement (ie software upgrades are promised to the customer), the Group applies judgement to assess whether the software upgrades are distinct from the licence (ie a separate performance obligation). If the upgrades are considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

For each contract that includes a separate licence performance obligation, the Group considers all the facts and circumstances in determining whether the licence revenue is recognised over-time (active) or at a point-in-time (passive) from the go-live date of the licence.

##### Deferred and accrued income

The Group's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and/or services being provided. This can include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance. The long-term service contracts tend to have higher cash flows early in the contract to cover transformational activities.

Where payments received are greater than the revenue recognised up to the balance sheet date, the Group recognises a deferred income contract liability for this difference. Where payments received are less than the revenue recognised up to the balance sheet date, the Group recognises an accrued contract income asset for this difference.

At each balance sheet date, the Group assesses whether there is any indication that accrued contract income assets may be impaired by considering whether or not any revenue reversal could occur. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

##### Contract types

The Group disaggregates revenue from contracts with customers by contract type, because management believe this best depicts how the nature, amount, timing, and uncertainty of the Group's revenue and cash flows are affected by economic factors. Categories are: long-term contractual – greater than two years; short-term contractual – less than two years; and transactional. The years being measured from the service commencement date.

##### Long-term contractual – greater than two years

The Group provides a range of services under contracts with a duration of more than two years. The nature of contracts or performance obligations within this revenue type includes:

- (i) long-term outsourced service arrangements in the public and private sectors; and
- (ii) active software licence arrangements.

The majority of long-term contractual agreements form part of a series of distinct goods and services because they are substantially the same service; and have the same pattern of transfer, since the series constitutes services provided in distinct time increments (eg daily, monthly, quarterly or annually), and therefore treats the series as one performance obligation.

##### Short-term contractual – less than two years

The nature of contracts or performance obligations within this revenue type includes:

- (i) short-term outsourced service arrangements in the public and private sectors; and
- (ii) software maintenance contracts.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.2 Revenue including segmental revenue *continued*

The Group has assessed that maintenance and support (ie on-call support, remote support) for software licences is a performance obligation that can be considered capable of being distinct and separately identifiable in a contract if the customer has a passive licence. These recurring services are substantially the same because the nature of the promise is for the Group to 'stand ready' to perform maintenance and support when required by the customer. Each day of 'standing ready' is distinct from each subsequent day and is transferred in the same pattern to the customer.

##### Transactional (point-in-time) contracts

The Group delivers a range of goods or services in all reportable segments that are transactional services for which revenue is recognised at the point-in-time when control of the goods or services has transferred to the customer. This may be at the point of physical delivery of goods or services and acceptance by the customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature of contracts or performance obligations within this revenue type includes:

- (i) provision of computing hardware goods;
- (ii) passive software licence agreements;
- (iii) commission received as agent from the sale of third-party software; and
- (iv) fees received in relation to the delivery of professional services.

##### 2.2.1 Segmental revenue

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client services across the markets the Group serves. Capita plc is a reconciling item and not an operating segment. A description of the service provision for each segment can be found in the strategic report on pages 14 to 21. Inter-segmental pricing is based on set criteria and is either charged on an arm's length basis or at cost.

The tables below present revenue for the Group's business segments as reported to the Chief Operating Decision Maker. The Group now comprises two divisions - Capita Public Service and Capita Experience - following the completion of the Group's exit of the non-core businesses in the Capita Portfolio division. Comparative information has been re-presented to reflect businesses exited during 2023, and accordingly the Capita Portfolio division is no longer disclosed as a division. Comparative information has also been re-presented to reflect the move of businesses between segments during 2023 to enable comparability.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £2,642.1m (2022: £2,609.0m), an increase of 1.3% (2022: increase 1.7%).

Year ended 31 December 2023	Notes	Capita Public Service £m	Capita Experience £m	Total adjusted £m	Adjusting items £m	Total reported £m
<b>Continuing operations</b>						
		1,206.6	875.9	2,082.5	21.5	2,104.0
		195.9	288.4	484.3	19.1	503.4
		56.1	19.2	75.3	131.9	207.2
		<b>1,458.6</b>	<b>1,183.5</b>	<b>2,642.1</b>	<b>172.5</b>	<b>2,814.6</b>
		1,507.9	1,221.9	2,729.8	194.4	2,924.2
		(49.3)	(38.4)	(87.7)	(21.9)	(109.6)
		<b>1,458.6</b>	<b>1,183.5</b>	<b>2,642.1</b>	<b>—</b>	<b>2,642.1</b>
	2.8	—	—	—	172.5	172.5
		<b>1,458.6</b>	<b>1,183.5</b>	<b>2,642.1</b>	<b>172.5</b>	<b>2,814.6</b>

Year ended 31 December 2022						
<b>Continuing operations</b>						
		1,166.8	987.6	2,154.4	81.8	2,236.2
		236.8	150.5	387.3	107.5	494.8
		51.2	16.1	67.3	216.3	283.6
		<b>1,454.8</b>	<b>1,154.2</b>	<b>2,609.0</b>	<b>405.6</b>	<b>3,014.6</b>
		1,497.0	1,194.4	2,691.4	490.0	3,181.4
		(42.2)	(40.2)	(82.4)	(84.4)	(166.8)
		<b>1,454.8</b>	<b>1,154.2</b>	<b>2,609.0</b>	<b>—</b>	<b>2,609.0</b>
	2.8	—	—	—	405.6	405.6
		<b>1,454.8</b>	<b>1,154.2</b>	<b>2,609.0</b>	<b>405.6</b>	<b>3,014.6</b>

##### Geographical location

The Group generates revenue largely in the UK and Europe. The table below presents revenue by geographical location.

	2023				2022			
	United Kingdom £m	Europe £m	Other £m	Total £m	United Kingdom £m	Europe £m	Other £m	Total £m
Revenue	2,526.0	282.5	6.1	2,814.6	2,731.2	270.8	12.6	3,014.6

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.2 Revenue including segmental revenue *continued*

##### 2.2.2 Order book

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than two years) and short-term contractual (contracts with length less than two years). The length of the contract is calculated from the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 31 December 2023	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Total £m
Long-term contractual	3,381.1	2,111.2	—	5,492.3
Short-term contractual	164.9	188.2	37.2	390.3
<b>Total</b>	<b>3,546.0</b>	<b>2,299.4</b>	<b>37.2</b>	<b>5,882.6</b>

Order book 31 December 2022	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Total £m
Long-term contractual	2,916.7	2,465.3	201.9	5,583.9
Short-term contractual	68.3	61.4	91.6	221.3
<b>Total</b>	<b>2,985.0</b>	<b>2,526.7</b>	<b>293.5</b>	<b>5,805.2</b>

The table below shows the expected timing of revenue to be recognised from long-term contractual orders at 31 December 2023:

Time bands of expected revenue recognition from long-term contractual orders	Capita Public Service £m	Capita Experience £m	Total £m
< 1 year	765.2	574.2	1,339.4
1–5 years	2,155.6	1,378.5	3,534.1
> 5 years	460.3	158.5	618.8
<b>Total</b>	<b>3,381.1</b>	<b>2,111.2</b>	<b>5,492.3</b>

Prior year comparative information is not presented for the expected timing of revenue recognition because it is a forward looking disclosure and therefore management does not believe that such disclosure provides meaningful information to a user of the consolidated financial statements.

The order book represents the consideration that the Group will be entitled to receive from customers when the Group satisfies its remaining performance obligations under the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, future indexation linked to an external metric, new wins, scope changes, and anticipated contract extensions. These elements have been excluded from the above tables because they are not contracted. Additionally, revenue from contract extensions is excluded from the order book unless they are pre-priced extensions whereby the Group has a legally binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions included in the tables above amounted to £513.8m (2022: £577.0m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.5 billion (2022: £5.6 billion) revenue to be earned on long-term contracts, £3.4 billion (2022: £4.2 billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional 'point-in-time' contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are anticipated to contribute an additional £0.6 billion (2022: £0.7 billion) of revenue to the Group over the life of these contracts.

The Group performs various services for a number of UK Government ministerial departments and considers these individual ministerial departments to be separate customers due to the limited economic integration between each ministerial department. Revenues of £319.8m from one customer in the Capita Public Service division represented more than 10% of the Group's total revenues (2022: no customer represented more than 10% of the Group's total revenues)

In February 2024, the Group extended and expanded its contract with a major European telecoms provider. The new contract is based on expected volumes, and therefore treated as a framework contract under IFRS 15. As a result, £365m included in the Capita Experience order book at 31 December 2023 relating to the previous contract has been released. The new contract is expected to be worth up to £420m to 2030.

##### 2.2.3 Deferred income

The Group's deferred income balances solely relate to revenue from contracts with customers. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £599.0m (2022: £744.2m).

Movements in the deferred income balances were driven by transactions entered into by the Group in the normal course of business during the current and prior year, other than the accelerated revenue recognised of £9.9m which primarily relates to an early termination of a contract in Capita Experience (2022: £nil).

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.3 Operating profit

##### 2.3.1 Items charged/(credited) to reported operating profit

	Notes	2023 £m	2022 £m
Depreciation of property, plant and equipment	3.2	31.2	40.9
Depreciation of right-of-use assets	3.5	48.3	56.0
Impairment of property, plant and equipment	3.2	10.8	4.7
Impairment/(reversal of impairment) of right-of-use assets	3.5	15.7	(2.7)
Amortisation of intangible assets	3.3	29.3	41.5
Impairment of intangible assets	3.3	0.9	5.9
Impairment of goodwill	3.4	42.2	169.0
Impairment of disposal group assets held for sale	2.8	18.1	—
Loss on sale of property, plant and equipment and intangibles	2.9.1	0.7	3.5
Income from foreign exchange differences		5.1	6.9
Contract fulfilment asset utilisation, impairment and derecognition	3.1.3	84.5	85.7
Contract termination gains		6.0	—
The net of: accelerated deferred income unwind, and contract fulfilment asset utilisation		9.8	—
Onerous contract provisions (net of additions and releases)		7.1	1.7

**Contract termination gains:** customer contracts usually contain provisions to compensate the Group for exit costs and future profits in the event of early termination. During 2023, customer contract terminations in Capita Experience, for customer convenience, led to associated exit fees being earned by Capita of £6.0m (2022: nil) and recorded as income during the year.

**The net of: accelerated deferred income unwind and contract fulfilment asset utilisation:** during 2023 the Group recognised a gain of £9.8m (2022: no gains or losses) related to the net of accelerated deferred income unwinds and non-current contract fulfilment asset utilisation. This primarily related to Capita Experience where a contract was terminated earlier than planned.

**Onerous contract provisions:** during 2023 the Group recognised a net loss of £7.1m related to onerous contract provisions (refer to note 3.6) in Capita Experience (2022: £1.7m loss related to contracts in Capita Experience).

##### 2.3.2 Fees payable to auditors

The amounts included in the table below relate to fees payable to KPMG LLP and its associates:

	2023 £m	2022 £m
<b>Audit and audit-related services</b>		
The audit of the Parent Company and the Group's consolidated financial statements	4.5	5.1
The audit of the financial statements of the Group's subsidiary companies	0.9	1.0
<b>Total audit and audit-related services</b>	<b>5.4</b>	<b>6.1</b>
<b>Non-audit services</b>		
Other assurance services	0.2	—
Audit-related assurance services	0.3	1.6
<b>Total non-audit services</b>	<b>0.5</b>	<b>1.6</b>
<b>Total audit and non-audit services</b>	<b>5.9</b>	<b>7.7</b>

The non-audit fees in respect of 2023 related to the review of interim results, ISAE 3402 assurance reporting on controls operated by a subsidiary, and ISAE 3000 assurance reporting over non-financial metrics reported within the Annual Report and Accounts. In respect of 2022, the non-audit fees related to the review of interim results, and services as reporting accountant for the disposal of Pay360 Limited.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.4 Adjusted operating profit and adjusted profit before tax

##### **AP** Accounting policies

IAS 1 *Presentation of Financial Statements* permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance.

The Board has adopted a policy to disclose separately those items that it considers are outside the underlying operating results for the particular year under review and against which the Group's performance is assessed internally. In the Board's judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence, for users of the consolidated financial statements to obtain an understanding of the financial information and the underlying performance of the Group. In general, the Board believes that alternative performance measures (APMs) are useful for investors because they provide further clarity and transparency of the Group's financial performance and are closely monitored by management to evaluate the Group's operating performance to facilitate financial, strategic and operating decisions. Accordingly, these items are also excluded from the discussion of divisional performance in the strategic report. This policy is kept under review by the Board and the Audit and Risk Committee. Refer to Section 8.2 for further details of the Group's APMs.

The Board considers APMs to be helpful to the reader, but notes that APMs have certain limitations, including the exclusion of significant recurring and non-recurring items, and may not be directly comparable with similarly titled measures presented by other companies.

Those items excluded from the adjusted income statement are: business exits; amortisation and impairment of acquired intangibles; impairment of goodwill; certain mark-to-market valuation changes that impact net finance expense/income; the costs associated with the cyber incident in March 2023, and the costs associated with the cost reduction programme announced in November 2023.

The items below are excluded from the adjusted results:		Operating (loss)/profit		(Loss)/profit before tax	
		Notes	2023 £m	2022 £m	2023 £m
<b>Reported</b>		<b>(52.0)</b>	(79.6)	<b>(106.6)</b>	61.4
Amortisation and impairment of acquired intangibles	3.3	<b>0.2</b>	5.1	<b>0.2</b>	5.1
Impairment of goodwill	3.4	<b>42.2</b>	169.0	<b>42.2</b>	169.0
Net finance expense/(income)	4.3	—	—	<b>2.2</b>	(3.4)
Business exits	2.8	<b>36.4</b>	(16.5)	<b>38.8</b>	(182.3)
Cyber incident		<b>25.3</b>	—	<b>25.3</b>	—
Cost reduction programme		<b>54.4</b>	—	<b>54.4</b>	—
<b>Adjusted</b>		<b>106.5</b>	78.0	<b>56.5</b>	49.8

- Adjusted operating profit increased by 36.5% (2022: increased 232.4%) and adjusted profit before tax increased by 13.5% (2022: increased 160.1%). Adjusted operating profit of £106.5m (2022: profit £78.0m) was generated on adjusted revenue of £2,642.1m (2022: £2,609.0m) resulting in an adjusted operating margin of 4.0% (2022: 3.0%).
- The tax charge on adjusted profit before tax is £31.1m (2022: £4.4m charge) resulting in adjusted profit after tax of £25.4m (2022: £45.4m profit).
- The adjusted operating profit and adjusted profit before tax for 2022 have been re-presented for the impact of business exits during 2023 and the change in adjusting items. This has resulted in adjusted operating profit decreasing from £102.9m to £78.0m and adjusted profit before tax decreasing from £73.8m to £49.8m

**Amortisation and impairment of acquired intangible assets:** the Group recognised acquired intangible amortisation of £0.2m (2022: £5.1m). These charges are excluded from the adjusted results of the Group because they are non-cash items generated from historical acquisition related activity. The charge is included within administrative expenses.

**Impairment of goodwill:** the Group carries on its balance sheet significant balances related to goodwill. Goodwill is subject to annual impairment testing and any impairment charges are reported separately because they are non-cash items generated from historical acquisition related activity. The charge is included within administrative expenses.

**Net finance costs:** net finance costs excluded from adjusted profits relate to movements in the mark-to-market value of forward foreign exchange contracts to cover anticipated future costs and therefore have no equivalent offsetting transaction in the accounting records, also refer to note 4.2.2.

**Business exits:** the trading result of businesses exited, or in the process of being exited, and the gain or loss on disposals are excluded from the Group's adjusted results. Note 2.8 provides further detail regarding which income statement line items are impacted by business exits.

**Cyber incident:** As detailed in the Chief Financial Officer's review, the Group has incurred exceptional costs associated with the cyber incident. These costs comprise specialist professional fees, recovery and remediation costs and investment to reinforce Capita's cyber security environment. A charge of £25.3m has been recognised in the year ended 31 December 2023, which excludes any potential insurance receipts because they had not met the criteria for recognition. Please also refer to note 6.2 contingent liabilities. The charge is included within administrative expenses.

**Cost reduction programme:** As detailed in the Chief Financial Officer's review, the Group announced the implementation of a significant cost reduction programme in November 2023. A charge of £54.4m has been recognised in the year ended 31 December 2023 for the costs to deliver the cost reduction programme. This includes redundancy and other costs of £23.3m to deliver a significant reduction in indirect support function and overhead roles, and property related costs of £31.1m arising from the associated rationalisation of the Group's property estate with impairment of right-of-use assets and property, plant & equipment, and provisions in respect of onerous property costs (refer to notes 3.2, 3.5 and 3.6). The charge is included within administrative expenses.

Refer to note 2.9.1 for the cash flow impact of the above.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.5 Segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. Capita plc is a reconciling item and not an operating segment. A description of the services provided by each segment can be found in the strategic report on pages 14 to 21. The tables below present profit for the Group's business segments. The Group now comprises two divisions - Capita Public Service and Capita Experience - following the completion of the Group's exit of the non-core businesses in the Capita Portfolio division. For segmental reporting, the costs of the central functions have been allocated to the segments using appropriate drivers such as adjusted revenue, adjusted profit or headcount. Comparative information has been re-presented to reflect businesses exited during 2023, and accordingly the Capita Portfolio division is now not disclosed as a division, and central functions' costs that were allocated to Capita Portfolio have been reallocated to the Capita plc segment. Comparative information has also been re-presented to reflect the move of businesses between segments during 2023 to enable comparability. Information on segmental revenue can be found in note 2.2.

Year ended 31 December 2023	Notes	Year ended 31 December 2023						Year ended 31 December 2022					
		Capita Public Service £m	Capita Experience £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m	Capita Public Service £m	Capita Experience £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	2.4	89.3	50.9	(33.7)	106.5	—	106.5	93.7	35.7	(51.4)	78.0	—	78.0
Cost reduction programme	2.4	(7.0)	(37.3)	(10.1)	—	(54.4)	(54.4)	—	—	—	—	—	—
Business exits – trading	2.8					(3.4)	(3.4)					39.7	39.7
<b>Total trading result</b>		<b>82.3</b>	<b>13.6</b>	<b>(43.8)</b>	<b>106.5</b>	<b>(57.8)</b>	<b>48.7</b>	93.7	35.7	(51.4)	78.0	39.7	117.7
Non-trading items:													
Business exits – non-trading	2.8				—	(33.0)	(33.0)				—	(23.2)	(23.2)
Other adjusting items	2.4				—	(67.7)	(67.7)				—	(174.1)	(174.1)
<b>Operating profit/(loss)</b>					<b>106.5</b>	<b>(158.5)</b>	<b>(52.0)</b>				78.0	(157.6)	(79.6)
Interest income	4.3						8.7						8.9
Interest expense	4.3						(60.9)						(40.6)
Share of results in associates and investment gains							—						5.8
(Loss)/gain on business disposal	2.8						(2.4)						166.9
<b>(Loss)/profit before tax</b>							<b>(106.6)</b>						61.4
<b>Supplementary Information</b>													
Depreciation and amortisation	3.2	42.5	57.8	3.6	103.9	4.9	108.8	38.2	66.5	14.6	119.3	19.1	138.4
Impairment of property, plant and equipment, intangible assets and right-of-use assets	3.3 3.5	1.5	2.6	0.1	4.2	23.2	27.4	—	7.7	(0.6)	7.1	0.8	7.9
Non-current contract fulfilment assets utilisation, impairment and derecognition	3.1.3	59.8	16.0	—	75.8	8.7	84.5	67.2	16.3	—	83.5	2.2	85.7
Onerous contract provisions	2.3	—	7.1	—	7.1	—	7.1	—	1.7	—	1.7	—	1.7

#### Geographical location

The table below presents the carrying amount of non-current assets (excluding deferred tax, financial assets and employee benefits) by the geographical location of those assets.

	2023				2022			
	United Kingdom £m	Europe £m	Other £m	Total £m	United Kingdom £m	Europe £m	Other £m	Total £m
Non-current assets	1,112.6	14.1	17.0	1,143.7	1,320.9	11.7	8.9	1,341.5

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.6 Taxation

##### **AP** Accounting policies

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill;
- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

##### **E** Significant accounting judgements and assumptions

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. This involves an assessment of when those assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there may be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as in the amounts recognised during the year in which the change occurs.

Sensitivities and additional information relating to deferred tax assets/liabilities are provided in note 2.6.2.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.6 Taxation continued

##### 2.6.1 Income tax charge

The reported income tax charge for the period is £74.0m on reported loss before tax of £106.6m (2022: reported income tax credit of £14.6m on reported profit of £61.4m), and an adjusted income tax charge for the period of £31.1m on adjusted profit before tax of £56.5m (2022: adjusted tax charge of £4.4m on adjusted profit of £49.8m). The most significant reconciling items, explaining the difference from the standard UK weighted average corporation tax rate of 23.5% for the period (2022: 19.0%) are changes in the accounting estimate of recognised deferred tax assets, unrecognised current year tax losses carried forward and non-deductible goodwill impairment.

The forecast future adjusted effective tax rates, before and assuming no material changes to tax laws in the jurisdictions in which Capita operates, are expected to be broadly similar to the UK corporation tax rate, with an increase for taxable profits in higher tax rate jurisdictions.

The major components of the income tax charge/(credit) are set out below:

	2023			2022		
	Total reported £m	Included in adjusted profit £m	Not included in adjusted profit £m	Total reported £m	Included in adjusted profit <sup>1</sup> £m	Not included in adjusted profit <sup>1</sup> £m
<b>Consolidated income statement</b>						
<b>Current income tax</b>						
Current income tax charge/(credit)	26.2	26.4	(0.2)	14.0	7.6	6.4
Adjustment in respect of prior years	4.0	4.0	—	(1.2)	(1.2)	—
<b>Deferred tax</b>						
On origination and reversal of temporary differences	43.9	0.8	43.1	(36.7)	(11.3)	(25.4)
Effect of changes in tax rate on deferred tax balances	(0.4)	(0.4)	—	3.0	3.0	—
Adjustment in respect of prior years	0.3	0.3	—	6.3	6.3	—
<b>Total charge/(credit)</b>	<b>74.0</b>	<b>31.1</b>	<b>42.9</b>	<b>(14.6)</b>	<b>4.4</b>	<b>(19.0)</b>

1. To enable a like-for-like comparison of adjusted results, the 2022 comparatives have been re-presented to exclude the businesses classified as business exits during 2023 from adjusted profit. Refer to note 2.8.

	2023 £m	2022 £m
<b>Consolidated statement of comprehensive income and consolidated statement of changes in equity</b>		
Deferred tax movement on cash flow hedges	(2.6)	1.6
Deferred tax movement in relation to actuarial changes on defined benefit pension schemes	3.3	5.2
Current income tax movement on defined benefit pension scheme contributions	(19.2)	(7.2)
Deferred tax movement in relation to share-based payments	(0.1)	—
Current income tax deduction on the exercise of share options	(0.2)	—
<b>Total credit</b>	<b>(18.8)</b>	<b>(0.4)</b>

The reconciliation between the total tax charge/(credit) and the accounting profit multiplied by the UK weighted average corporation tax rate is as follows:

	Total tax		Current tax	
	2023 £m	2022 £m	2023 £m	2022 £m
(Loss)/profit before tax	(106.6)	61.4	(106.6)	61.4
Notional (credit)/charge at UK weighted average corporation tax rate of 23.5% (2022: 19.0%)	(25.1)	11.7	(25.1)	11.7
Adjustments in respect of current income tax of prior years	a 4.0	(1.2)	4.0	(1.2)
Adjustments in respect of deferred tax of prior years	b 0.3	6.3	—	—
Non-deductible expenses/(non-taxable income) – adjusted	0.2	(2.3)	0.2	(2.3)
Non-deductible expenses – business exit	c* 4.9	2.3	4.9	2.3
Non-deductible expenses – specific items	1.7	—	1.7	—
Loss/(profit) on disposal of businesses	d* 0.6	(31.6)	0.6	(31.6)
Non-deductible goodwill impairment	e* 9.9	32.0	9.9	32.0
Difference in rate recognition of temporary differences	(0.4)	3.0	—	—
Tax provided on unremitted earnings	f 0.2	1.4	—	—
Attributable to different tax rates in overseas jurisdictions	g (4.3)	0.5	(2.9)	0.5
Movement in unrecognised temporary differences	2.6.2 82.0	(36.7)	—	—
Fixed asset temporary differences	—	—	5.7	6.8
Current tax impact on other temporary differences	—	—	(0.4)	(6.4)
Carry forward of losses in current period	h —	—	31.6	1.0
At the effective total tax rate of (69.4)% (2022: (23.8)%) and the effective current tax rate of (28.3)% (2022: 20.8%)	i 74.0	(14.6)	30.2	12.8
<b>Tax charge/(credit) reported in the income statement</b>	<b>74.0</b>	<b>(14.6)</b>	<b>30.2</b>	<b>12.8</b>

\* These £15.4m (2022: £2.7m) of reconciling items relate to the reported tax charge only, with no impact on the adjusted tax charge. Further details are given below.

a The £4.0m prior year charge adjustment includes: (i) £0.2m for additional uncertain tax positions provided against; (ii) £0.3m credit which has a corresponding impact within deferred tax of prior years; and (iii) a £4.1m charge to adjust for finalisation of submitted tax returns for which there is no opposite deferred tax credit in relation to the temporary difference true-up because these are unrecognised.

b Adjustments in respect of deferred tax of prior years mainly relate to £0.3m of charges which have a corresponding impact within current income tax of prior years.

c\* Business exit: relates to non-deductible closure costs associated with the sale of entities. Refer to note 2.8 for further details.

d\* Relates to the application of the tax exemption on accounting losses from the sale of entities. Refer to note 2.8.1 for further details.

e\* Relates to the goodwill impairments as detailed further in note 3.4.

f Movement on the deferred tax liability recognised on the unremitted earnings of those subsidiaries affected by withholding taxes.

g Mainly relates to tax payable at lower rates, eg in the Isle of Man.

h Relates to the carry forward of tax losses in the current period, most of which arise in relation to adjusting items (cost reduction programme and cyber incident) and deductible pension contributions in the period.

i The current tax charge of £30.2m (2022: £12.8m) results in an effective current tax rate of (28.3)%, which is different from the UK weighted average statutory rate of tax of 23.5% predominantly due to: non-deductible goodwill impairment; and unrecognised losses carried forward. The impact of differing overseas tax rates is covered in footnote g.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.6 Taxation continued

##### 2.6.2 Deferred tax

A change to the main UK statutory corporation tax rate was substantively enacted on 24 May 2021. The rate applicable from 1 April 2023 increased from 19% to 25%. The net UK deferred tax assets for the period to 31 December 2023, and the prior period, have been calculated based on this rate.

Deferred tax relates to the following:

	At 1 January £m	Credited/(charged) to			At 31 December £m
		Income statement £m	OCI and changes in equity £m	Other movements <sup>2</sup> £m	
<b>Deferred tax assets</b>					
Fixed assets which qualify for tax relief	90.8	(1.2)	—	(2.4)	87.2
Provisions and other temporary differences	10.5	(1.5)	2.6	(0.3)	11.3
Pension schemes	5.9	(0.6)	(3.3)	(0.2)	1.8
Share-based payments	1.3	0.1	0.1	—	1.5
Tax losses <sup>1</sup>	81.4	(42.5)	—	(2.2)	36.7
	189.9	(45.7)	(0.6)	(5.1)	138.5
Jurisdictional netting	(0.4)				1.8
Net deferred tax assets	189.5	(45.7)	(0.6)	(5.1)	140.3
<b>Deferred tax liabilities</b>					
Acquired intangibles	(0.2)	0.1	—	—	(0.1)
Contract fulfilment assets	(2.2)	2.0	—	—	(0.2)
Unremitted earnings	(4.9)	(0.2)	—	—	(5.1)
	(7.3)	1.9	—	—	(5.4)
Jurisdictional netting	0.4				(1.8)
Net deferred tax liabilities	(6.9)	1.9	—	—	(7.2)
<b>Net deferred tax</b>	182.6	(43.8)	(0.6)	(5.1)	133.1

1. Mainly trading losses available to shelter future profits and deferred interest.

2. Other movements includes business disposals.

The main movement in the net deferred tax asset is the income statement tax charge arising on the change in the accounting estimate of deferred tax.

For the purpose of recognising deferred tax on the pension scheme surplus, withholding tax at 35% would apply for any surplus being refunded to the Group at the end of the life of the scheme. Corporation tax at 25% would apply for any surplus expected to unwind over the life of the scheme. Management have concluded that the corporation tax rate should apply to the recognition of deferred tax on the pension scheme surplus, reflecting the Group's intention regarding the manner of recovery of the asset.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The recoverability of deferred tax assets is supported by the deferred tax liabilities against which the reversal can be offset and the expected level of future taxable profits available to offset the assets when they reverse.

The recognition of deferred tax assets at 31 December 2023 has been based on the forecast accounting profits in the 2024-2026 business plans (BP) approved by the Board. This is the same plan used to derive forecast cash flows for the goodwill impairment test (refer to note 3.4). A long-term growth rate of 1.7%, as used for impairment test purposes, has been applied to the years beyond 2026. A reducing probability factor has also been applied to future profits for the potential decrease in reliability of forecasts extrapolated for later years, such that profits beyond seven years of the balance sheet date have not been considered probable for the purpose of assessing deferred tax asset recognition.

Unused tax losses make up the majority of the temporary differences available to be utilised in future periods. These losses mainly arose due to the historic adoption of IFRS 15, previous Covid-19 related downward pressures on profits and tax deductible restructuring costs, and in the current year due to tax deductible cost reduction programme expenses, cyber costs and pension contributions. Based on the forecast accounting profits, management have concluded that some of the deductible temporary differences and unused tax losses are not recognisable due to uncertainty in their recoverability. Therefore, there is a decrease in the amounts previously recognised in respect of deferred tax assets, along with further unrecognised temporary differences arising during the year. The impact of this is a charge to the income statement of £45.2m. This is included in the movement in unrecognised temporary differences of £82.0m in the tax reconciliation table in section 2.6.1 above, which also includes unrecognised current year temporary differences (mainly losses) of £36.8m. The reported income statement charge includes £45.5m change in the deferred tax asset estimate due to the reduction in future taxable profits on disposal of taxable subsidiaries, reflected in the tax arising on business exits (see Note 2.8).

Deferred tax asset recognition depends on the reliability of management's forecasts and the assumptions that underlie them. Management have considered the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, to gauge sensitivity and identify a reasonable possible alternative result. This scenario identified a further potential reduction in recognised deferred tax assets of approximately £16m.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.6 Taxation *continued*

The Group has unrecognised tax losses and other temporary differences that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose, but have not been recognised because their recoverability is uncertain. The table below shows the amounts split between UK and non-UK jurisdictions.

	2023 £m Gross Amount	2022 £m Gross Amount
<b>UK:</b>		
Tax losses	628.7	332.7
Other temporary timing differences	140.2	113.9
	<b>768.9</b>	<b>446.6</b>
<b>Non-UK:</b>		
Tax losses	67.4	60.8
Other temporary timing differences	11.2	11.6
	<b>78.6</b>	<b>72.4</b>
<b>Total</b>	<b>847.5</b>	<b>519.0</b>

The £328.5m increase in unrecognised tax losses and other temporary differences reflects the decrease in the amounts previously recognised in respect of deferred tax assets, and unrecognised temporary differences arising during the year due to tax deductible cost reduction programme expenses, cyber costs and pension contributions.

Assets have no time expiry, but some losses are subject to specific loss restriction rules. £28.8m (2022: £39.9m) of the losses were incurred by companies acquired by the Group and are not a result of the Group's trading performance.

Dividends received from subsidiaries are largely exempt from UK tax but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. The gross temporary differences of those subsidiaries affected by such potential taxes is £48.4m (2022: £58.4m). A deferred tax liability of £5.1m (2022: £4.9m) has been recognised on the unremitted earnings of those subsidiaries affected by such potential taxes because the Group is able to control the timing of reversal and it is anticipating dividends to be distributed. The earnings remitted during the year have resulted in a reduction in the closing deferred tax liability.

#### 2.6.3 Uncertain tax positions

The Group files income tax returns in several jurisdictions and some of these returns are open to, or subject to, tax authority audits or examinations. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations; and the resolution of tax positions, through negotiations with relevant tax authorities or through litigation, can take several years. Tax uncertainties are assessed throughout the year and specifically at the year-end with any associated provisions recognised considering the specific circumstances of each risk, including the merits of technical aspects, previous experience with tax authorities, recent tax law and if relevant, external specialist advice. The Group applies judgement in quantifying uncertainties over income tax treatments in accordance with this criteria.

At 31 December 2023 the net income tax receivable of £10.3m is net of a £3.1m (2022: £2.9m) liability in relation to uncertain tax positions. During 2023 the Group provided for tax on additional risks of £0.2m (2022: £1.2m release).

Expiry under the statute of limitations, or conclusion of tax audits could result in a further release of the provision in the next financial year. While it is difficult to predict the ultimate outcome in some cases, and there are a range of different outcomes, the Group does not currently anticipate that there will be any material impact on the Group's financial position in the next financial year.

#### 2.6.4 Global minimum tax

The Group is within the scope of the Pillar Two top-up tax that applies in the UK. The first period for which a Pillar Two return will be required is the accounting period ending on 31 December 2024.

The Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The Group is in the process of the necessary analysis in preparation for complying with the Pillar Two model rules for the accounting period ending on 31 December 2024. Based on the analysis derived from information in respect of prior periods, the Group has identified potential exposure to Pillar Two top-up taxes in Poland and Switzerland.

Since the stated jurisdictions either have a low tax rate and no material profits are expected for 2024; or, an expected effective tax rate close to 15%; it is not expected that the Pillar Two top-up tax will have a material impact on the Group tax liability.

#### 2.6.5 Capita's responsible approach to taxation

Capita has an open and positive working relationship with HMRC, has a designated customer compliance manager, and is committed to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. The Group does not have a complex tax structure, and continues to progress well with its legal entity rationalisation programme. Nor does it pursue aggressive tax avoidance activities. The Group has a low-risk rating from HMRC, and has been awarded the Fair Tax Mark for its tax disclosures from 2018 to 2022. The Group has operations in a number of countries outside the UK. All such operations outside the UK are trading operations and pay the appropriate local taxes on these activities. Further detail, regarding Capita's tax strategy can be found on the Policies & Principles area of the Capita website (<https://www.capita.com/our-company/about-capita/policies-and-principles>).

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.7 Earnings/(loss) per share

##### AP Accounting policies

Basic earnings/(loss) per share are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share are calculated by dividing the net (loss)/profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

		2023 pence	2022 pence
Basic earnings/(loss) per share	– reported	<b>(10.60)</b>	4.47
	– adjusted	<b>1.70</b>	2.64
Diluted earnings/(loss) per share	– reported	<b>(10.60)</b>	4.40
	– adjusted	<b>1.70</b>	2.60

The following tables show the earnings and share data used in the basic and diluted earnings/(loss) per share calculations:

		2023 £m	2022 £m
Reported (loss)/profit before tax for the period		<b>(106.6)</b>	61.4
Income tax (charge)/credit	2.6.1	<b>(74.0)</b>	14.6
Reported (loss)/profit for the period		<b>(180.6)</b>	76.0
Less: Non-controlling interest		<b>2.5</b>	(1.2)
Total (loss)/profit attributable to shareholders		<b>(178.1)</b>	74.8
Adjusted profit before tax <sup>1</sup> for the period	2.4	<b>56.5</b>	49.8
Income tax (charge)/credit	2.6.1	<b>(31.1)</b>	(4.4)
Adjusted profit for the period		<b>25.4</b>	45.4
Less: Non-controlling interest		<b>3.1</b>	(1.2)
Adjusted profit attributable to shareholders		<b>28.5</b>	44.2

1. Definitions of the alternative performance measures and related Key Performance Indicators (KPIs) can be found in section 8.2.

	2023 m	2022 m
Weighted average number of ordinary shares (excluding Employee Benefit Trust shares) for basic earnings per share	<b>1,680.9</b>	1,671.7
Dilutive potential ordinary shares:		
Employee share options	—	30.0
Weighted average number of ordinary shares (excluding Employee Benefit Trust shares) adjusted for the effect of dilution	<b>1,680.9</b>	1,701.7

At 31 December 2023 35,795,731 (2022: nil) options were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Under IAS 33 *Earnings per Share*, potential ordinary shares are treated as dilutive when, and only when, their conversion into ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

The earnings per share figures are calculated based on earnings attributable to ordinary equity holders of the Parent Company, and therefore exclude non-controlling interest. The earnings per share is calculated on a total reported and an adjusted basis. The earnings per share for business exits and specific items are reconciling items between total reported and adjusted basic earnings per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the balance sheet date and the date on which these consolidated financial statements were authorised for issue.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.8 Business exits and assets held for sale

##### AP Accounting policies

###### Business exits

Business exits are businesses that have been sold, exited during the period, or are in the process of being sold or exited in accordance with the Group's strategy. None of these business exits meets the definition of 'discontinued operations' as stipulated by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which requires comparative financial information to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment.

However, the trading result of these businesses, non-trading expenses, and any gain/loss on disposal, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2022 comparatives have been re-presented to exclude the businesses classified as business exits during 2023.

###### Assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continued use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value, and, the sale should be expected to be completed within one year from the date of classification.

Based on the above requirements, individual businesses will only reach the criteria to be treated as held for sale when their disposal is seen to be highly probable, and expected to complete within the following twelve months. At 31 December 2023 one business (the Group's 75% shareholding in Fera Science Limited (Fera)) was deemed to have met this threshold. At 31 December 2022 no disposals were deemed to have met this threshold.

###### 2023 business exits

Business exits at 31 December 2023 primarily comprised the following business disposals:

Business	Disposal completed on
Resourcing	31 May 2023
Security Watchdog	31 May 2023
PageOne	31 July 2023
Software	31 July 2023
Enforcement	31 July 2023
Travel	14 November 2023
Fera	17 January 2024

In addition to the above disposals, the Group decided to exit a business in Capita Public Service in the second half of the year, and the trading result and non-trading expenses of this business have been excluded from adjusted results.

Income statement impact	2023			2022 (Re-presented) <sup>1</sup>		
	Trading £m	Non-trading £m	Total £m	Trading £m	Non-trading £m	Total £m
<b>Revenue</b>	<b>172.5</b>	<b>—</b>	<b>172.5</b>	405.6	—	405.6
Cost of sales	(110.7)	—	(110.7)	(284.6)	—	(284.6)
Gross profit	<b>61.8</b>	<b>—</b>	<b>61.8</b>	121.0	—	121.0
Administrative expenses	(65.2)	(33.0)	(98.2)	(81.3)	(23.2)	(104.5)
<b>Operating (loss)/profit</b>	<b>(3.4)</b>	<b>(33.0)</b>	<b>(36.4)</b>	39.7	(23.2)	16.5
Net finance costs	—	—	—	(1.1)	—	(1.1)
(Loss)/gain on business disposal	—	(2.4)	(2.4)	—	166.9	166.9
<b>(Loss)/profit before tax</b>	<b>(3.4)</b>	<b>(35.4)</b>	<b>(38.8)</b>	38.6	143.7	182.3
Taxation	0.3	(43.9)	(43.6)	(7.3)	26.0	18.7
<b>(Loss)/profit after tax</b>	<b>(3.1)</b>	<b>(79.3)</b>	<b>(82.4)</b>	31.3	169.7	201.0

1. To enable a like-for-like comparison of adjusted results, the 2022 comparatives have been re-presented to include the businesses classified as business exits during 2023.

Trading revenue and costs represent the current period trading performance of the above businesses up to the point of being disposed or exited, and in the comparative period those businesses disposed of during 2022 (AMT Sybex, Secure Solutions and Services, Trustmarque, Speciality Insurance, Real estate and infrastructure consultancy, Optima Legal Services, Pay360, and Capita Translation and Interpreting).

Trading expenses primarily comprise payroll costs of £121.0m (2022: £307.2m), information technology costs of £18.5m (2022: £50.0m), and the de-recognition of non-current contract fulfilment assets on the early termination of a customer contract within the business being exited in Capita Public Service of £8.2m (2022: £nil).

Non-trading administrative expenses include: asset impairments of £25.4m (2022: £nil); disposal project costs of £5.6m (2022: £14.4m); other costs including staff and redundancy costs of £2.6m (2022: £8.7m); and, other income of £0.6m (2022: £nil). The asset impairments arising in 2023 include goodwill within assets held for sale of £18.1m, property, plant and equipment of £7.1m (refer to note 3.2) and right-of-use assets of £0.2m (refer to note 3.5).

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.8 Business exits and assets held for sale *continued*

##### 2.8.1 Disposals

During 2023 the Group disposed of six businesses: Resourcing, Security Watchdog, PageOne, Software, Enforcement and Travel. During 2022 the Group disposed of eight businesses: AMT Sybex, Secure Solutions and Services, Trustmarque, Speciality Insurance, Real estate and infrastructure consultancy, Optima Legal Services, Pay360 and Capita Translation and Interpreting.

The (loss)/gain arising was determined as follows:

	2023 £m	2022 £m
Property, plant and equipment	0.3	0.2
Intangible assets	8.6	20.4
Goodwill	3.2	178.3
Right-of-use assets	0.2	0.2
Income tax recoverable and deferred tax assets	0.8	7.6
Contract fulfilment assets	—	2.8
Trade and other receivables	78.6	136.6
Cash and cash equivalents	14.6	55.9
Disposal group assets held for sale <sup>1</sup>	78.2	143.0
Trade and other payables	(36.6)	(127.0)
Deferred income	(3.9)	(38.6)
Lease liabilities	(0.2)	(0.3)
Capita group loan balances	(42.7)	(102.3)
Income tax payable and deferred tax liabilities	(1.1)	(0.7)
Provisions	—	(0.4)
Disposal group liabilities held for sale <sup>1</sup>	(33.5)	(135.4)
<b>Net identifiable assets sold</b>	<b>66.5</b>	<b>140.3</b>
Non-controlling interests	—	(0.3)
	<b>66.5</b>	<b>140.0</b>
Sales price:		
received in cash	68.4	330.0
deferred receivable	11.4	10.5
Less: disposal costs	(15.5)	(33.3)
<b>Net sales price</b>	<b>64.3</b>	<b>307.2</b>
Realisation of cumulative currency translation difference	(0.2)	(0.3)
<b>(Loss)/gain on disposal of businesses</b>	<b>(2.4)</b>	<b>166.9</b>

The net cash inflow was determined as follows:

	2023 £m	2022 £m
<b>Net cash inflow</b>		
Proceeds received	68.4	330.0
Less disposal costs:		
income statement charge	(15.5)	(33.3)
change in accrued disposal costs during the year	(8.1)	9.9
Settlement of receivables due from disposed businesses:		
disposal of businesses in the period	52.0	102.3
disposal of businesses classified as held for sale	—	54.5
<b>Total proceeds received net of disposal costs paid</b>	<b>96.8</b>	<b>463.4</b>
<b>Total cash held by businesses when sold</b>		
Cash held by businesses when sold	(33.4)	(55.9)
Cash held by businesses classified as held for sale	—	(19.6)
<b>Total cash held by businesses when sold</b>	<b>(33.4)</b>	<b>(75.5)</b>
<b>Net cash inflow</b>	<b>63.4</b>	<b>387.9</b>

1. 2023 balances in respect of disposal group assets and liabilities held for sale relate to three businesses (PageOne, Software and Enforcement) that were transferred to held for sale on 30 June 2023, and were subsequently sold on 31 July 2023. 2022 balances relate to three businesses (AMT Sybex software, Secure Solutions and Services (SSS), and Speciality Insurance) that were held for sale at 31 December 2021, and were subsequently sold during 2022.

Disposal costs of £11.0m, relating to businesses disposed of in the year, were recognised in prior years and are excluded from the above loss on disposal of businesses.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.8 Business exits and assets held for sale *continued*

##### 2.8.2 Disposal group assets and liabilities held for sale

At 31 December 2023, the Fera business was deemed to have met the threshold to be treated as held for sale (2022: no disposals were deemed to have met the held for sale threshold).

	2023 £m	2022 £m
Property, plant and equipment	5.1	—
Goodwill	15.0	—
Trade and other receivables	3.3	—
Accrued income	6.1	—
Prepayments	1.4	—
Cash and cash equivalents	7.2	—
Income tax receivable and deferred tax assets	—	—
<b>Disposal group assets held for sale</b>	<b>38.1</b>	<b>—</b>
Trade and other payables	2.1	—
Other taxes and social security	1.6	—
Accruals	1.8	—
Deferred income	3.6	—
Income tax payable and deferred tax liabilities	0.6	—
<b>Disposal group liabilities held for sale</b>	<b>9.7</b>	<b>—</b>

##### 2.8.3 Business exit cash flows

Businesses exited and being exited had a cash generated from operations outflow of £16.2m (2022: cash inflow of £28.0m).

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.9 Cash flow information

##### AP Accounting policies

Cash and short-term deposits in the balance sheet comprise cash at bank and in-hand and short-term deposits with an original maturity of three months or less. In the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits net of outstanding bank overdrafts and include cash and overdrafts within disposal group assets and liabilities held for sale. Cash at bank earns interest at fixed and floating rates based on prevailing bank deposit rates.

##### 2.9.1 Additional cash flow information

	Notes	2023		2022	
		Reported £m	Excluding business exits <sup>1,2</sup> £m	Reported £m	Excluding business exits <sup>1,2</sup> £m
<b>Cash flows from operating activities:</b>					
Reported operating loss	2.4	(52.0)	(52.0)	(79.6)	(79.6)
Less: business exit operating loss/(profit)	2.8	—	36.4	—	(16.5)
<b>Total operating loss</b>		<b>(52.0)</b>	<b>(15.6)</b>	<b>(79.6)</b>	<b>(96.1)</b>
<b>Adjustments for non-cash items:</b>					
Depreciation	3.2				
	3.5	79.5	78.1	96.9	93.8
Amortisation of intangible assets	3.3	29.3	26.0	41.5	30.6
Share-based payment expense	5.1	5.5	5.5	5.4	5.4
Employee benefits	5.2	7.7	7.7	9.0	9.0
Loss on sale of property, plant and equipment and intangible assets	2.3	0.7	0.7	3.5	3.5
Amendments and early terminations of leases		3.0	3.0	(4.7)	(4.7)
Impairment of assets held for sale		18.1	—	—	—
Impairment of non-current assets		69.6	62.3	176.9	176.1
<b>Other adjustments:</b>					
Movement in provisions		23.0	15.3	(42.1)	(48.5)
Pension deficit contributions	5.2	(46.3)	(30.0)	(38.6)	(30.0)
Other contributions into pension schemes		(9.2)	(9.2)	(10.0)	(10.0)
<b>Movements in working capital:</b>					
Trade and other receivables		(30.1)	(5.6)	(41.0)	37.0
Non-recourse trade receivables financing		(9.2)	(9.2)	28.0	28.0
Trade and other payables		(8.5)	(6.0)	84.8	20.9
VAT deferral		—	—	(14.9)	(14.9)
Deferred income		(77.4)	(81.8)	(116.0)	(122.0)
Contract fulfilment assets (non-current)		5.0	—	18.7	20.3
<b>Cash generated from operations</b>		<b>8.7</b>	<b>41.2</b>	<b>117.8</b>	<b>98.4</b>

	Notes	2023		2022	
		Reported £m	Excluding business exits <sup>1,2</sup> £m	Reported £m	Excluding business exits <sup>1,2</sup> £m
<b>Adjustments for free cash flows:</b>					
Income tax paid		(7.5)	(3.6)	(7.9)	(10.9)
Interest received		6.2	6.2	5.0	5.0
Interest paid		(47.7)	(47.7)	(43.0)	(41.6)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(40.3)</b>	<b>(3.9)</b>	<b>71.9</b>	<b>50.9</b>
Purchase of property, plant and equipment	3.2	(28.8)	(27.4)	(20.6)	(11.2)
Purchase of intangible assets	3.3	(32.8)	(31.6)	(27.3)	(27.3)
Proceeds from sale of property, plant and equipment and intangible assets		0.1	0.1	0.5	0.5
Capital element of lease rental receipts		6.0	6.0	5.8	5.8
Capital element of lease rental payments		(59.1)	(58.7)	(61.8)	(61.1)
<b>Free cash flow<sup>2</sup></b>		<b>(154.9)</b>	<b>(115.5)</b>	<b>(31.5)</b>	<b>(42.4)</b>

1. Definitions of the alternative performance measures and related Key Performance Indicators (KPIs) can be found in section 8.2.

2. From 1 January 2023 free cash flow and free cash flow excluding business exits are presented after deducting the capital element of lease payments and receipts. Comparative amounts have been re-presented. Refer to note 2.9.2.

**Cyber incident:** In relation to the exceptional cyber incident costs referred to in note 2.4, the cash outflow during the year ended 31 December 2023 was £20.1m and is included within free cash flow excluding business exits, and cash generated from operations excluding business exits.

**Cost reduction programme:** In relation to the implementation of the cost reduction programme detailed in note 2.4, the cash outflow during the year ended 31 December 2023 was £6.1m and is included within free cash flow excluding business exits, and cash generated from operations excluding business exits. A further outflow of approximately £21m associated with the programme announced in November 2023 is expected in 2024.

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.9 Cash flow information *continued*

##### 2.9.2 Free cash flow and cash generated from operations (alternative performance measures - refer to section 8.2)

The Board considers free cash flow, and cash generated from operations excluding business exits, to be alternative performance measures because these metrics provide a more representative measure of the sustainable cash flow of the Group.

Following feedback from investors the Board has revised its definition of the free cash flow and free cash flow excluding business exits alternative performance measures. From 1 January 2023, both these metrics have been presented after deducting the capital element of lease payments and receipts, since this provides a more relevant and comparable measure of the cash generated by the Group's operations and available to fund operations, capital expenditure, non-lease debt obligations, and potential shareholder distributions. Comparative amounts have been re-presented.

These measures are analysed below:

	Free cash flow		Cash generated/(used) by operations	
	2023 £m	2022 £m	2023 £m	2022 £m
<b>Reported (including business exits)</b>	<b>(154.9)</b>	<b>(31.5)</b>	<b>8.7</b>	117.8
Business exits	23.1	(19.5)	16.2	(28.0)
Pension deficit contributions triggered by disposals	16.3	8.6	16.3	8.6
<b>Excluding business exits</b>	<b>(115.5)</b>	<b>(42.4)</b>	<b>41.2</b>	98.4

A reconciliation of net cash flow to movement in net debt is included in note 2.9.3.

**Business exits:** the cash flows of businesses exited, or in the process of being exited, and the proceeds from disposals, are disclosed outside the adjusted results. The 2022 results have been re-presented for those businesses exited, or in the process of being exited, during 2023 to enable comparability of the adjusted results.

**Pension deficit contributions triggered by disposals:** the Trustee of the Group's main defined benefit pension scheme has agreed with the Group to accelerate the payment of future agreed deficit contributions on a pound for pound basis in the event of disposal proceeds being used to fund mandatory prepayments of debt. The disposal of Pay360 and Capita Translation and Interpreting in the second half of 2022 and Resourcing in 2023 resulted in accelerated deficit contributions totalling £16.3m being paid into the Scheme during 2023. Additionally, as a result of the Trustmarque disposal in March 2022, a further £14.5m of accelerated deficit contributions is required by March 2024 (2022: Pension deficit contributions of £8.6m triggered by: the disposal of the Trustmarque business which led to accelerated deficit contributions of £5.9m; and the disposal of the Axelos business in 2021 which led to accelerated deficit contributions of £2.7m).

## I Notes to the consolidated financial statements *continued*

### Section 2: Results for the year *continued*

#### 2.9 Cash flow information continued

##### 2.9.3 Reconciliation of net cash flow to movement in net debt

Year ended 31 December 2023	Note	Net debt at 1 January £m	Cash flow movements £m	Amortisation £m	Change in fair value £m	Interest £m	New leases £m	Lease terminations £m	Lease modifications £m	Exchange movements £m	Total Non-cash movement £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	4.5.4	177.2	(106.9)	—	—	—	—	—	—	(2.7)	(2.7)	67.6
Private placement loan notes		(289.5)	17.5	—	3.7	—	—	—	—	1.3	5.0	(267.0)
Unamortised transaction costs on debt issuance		4.0	5.4	(4.9)	—	—	—	—	—	—	(4.9)	4.5
Carrying value of private placement loan notes	4.5	(285.5)	22.9	(4.9)	3.7	—	—	—	—	1.3	0.1	(262.5)
Cross-currency interest rate swaps	4.5	24.8	(6.9)	—	(4.3)	—	—	—	—	—	(4.3)	13.6
Fair value of private placement loan notes		(260.7)	16.0	(4.9)	(0.6)	—	—	—	—	1.3	(4.2)	(248.9)
Other finance	4.5	(0.7)	0.5	—	—	—	—	—	—	0.1	0.1	(0.1)
Lease liabilities	4.4	(397.5)	81.4	—	—	(22.3)	(17.2)	2.6	(11.9)	1.5	(47.3)	(363.4)
<b>Total net liabilities from financing activities</b>		<b>(658.9)</b>	<b>97.9</b>	<b>(4.9)</b>	<b>(0.6)</b>	<b>(22.3)</b>	<b>(17.2)</b>	<b>2.6</b>	<b>(11.9)</b>	<b>2.9</b>	<b>(51.4)</b>	<b>(612.4)</b>
Deferred consideration payable	4.5	(0.7)	—	—	—	—	—	—	—	—	—	(0.7)
<b>Net debt</b>	4.1.1	<b>(482.4)</b>	<b>(9.0)</b>	<b>(4.9)</b>	<b>(0.6)</b>	<b>(22.3)</b>	<b>(17.2)</b>	<b>2.6</b>	<b>(11.9)</b>	<b>0.2</b>	<b>(54.1)</b>	<b>(545.5)</b>

Year ended 31 December 2022	Note	Net debt at 1 January £m	Cash flow movements £m	Amortisation £m	Change in fair value £m	Interest £m	New Leases £m	Lease terminations £m	Lease modifications £m	Exchange movements £m	Total Non-cash movement £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	4.5.4	101.5	75.3	—	—	—	—	—	—	0.4	0.4	177.2
Private placement loan notes		(513.4)	236.8	—	(6.9)	—	—	—	—	(6.0)	(12.9)	(289.5)
Unamortised discount on debt issuance		(2.1)	—	2.1	—	—	—	—	—	—	2.1	—
Unamortised transaction costs on debt issuance		2.6	5.2	(3.8)	—	—	—	—	—	—	(3.8)	4.0
Carrying value of private placement loan notes	4.5	(512.9)	242.0	(1.7)	(6.9)	—	—	—	—	(6.0)	(14.6)	(285.5)
Cross-currency interest rate swaps	4.5	28.0	(10.1)	—	6.9	—	—	—	—	—	6.9	24.8
Fair value of private placement loan notes		(484.9)	231.9	(1.7)	—	—	—	—	—	(6.0)	(7.7)	(260.7)
Other finance	4.5	(1.3)	0.6	—	—	—	—	—	—	—	—	(0.7)
Credit facilities		(46.0)	46.0	—	—	—	—	—	—	—	—	—
Lease liabilities	4.4	(448.4)	84.4	—	—	(22.5)	(15.3)	6.5	(0.3)	(1.9)	(33.5)	(397.5)
<b>Total net liabilities from financing activities</b>		<b>(980.6)</b>	<b>362.9</b>	<b>(1.7)</b>	<b>—</b>	<b>(22.5)</b>	<b>(15.3)</b>	<b>6.5</b>	<b>(0.3)</b>	<b>(7.9)</b>	<b>(41.2)</b>	<b>(658.9)</b>
Deferred consideration payable	4.5	(0.7)	—	—	—	—	—	—	—	—	—	(0.7)
<b>Net debt</b>	4.1.1	<b>(879.8)</b>	<b>438.2</b>	<b>(1.7)</b>	<b>—</b>	<b>(22.5)</b>	<b>(15.3)</b>	<b>6.5</b>	<b>(0.3)</b>	<b>(7.5)</b>	<b>(40.8)</b>	<b>(482.4)</b>

Overdrafts comprise the aggregate value of overdrawn bank account balances within the Group's notional interest pooling arrangements. These aggregate overdrawn amounts are fully offset by surplus balances within the same notional pooling arrangements.

At 31 December 2023, the Group's £260.7m committed revolving credit facility was undrawn (31 December 2022: undrawn).

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities

This section shows the operating assets and liabilities used to generate the Group's trading performance. Liabilities relating to the Group's financing activities are contained in Section 4. Current tax and deferred tax assets and liabilities are shown in note 2.6. Deferred income is shown in note 2.1.

3.1	Working capital
3.1.1	Trade and other receivables
3.1.2	Trade and other payables
3.1.3	Contract fulfilment assets (non-current)
3.2	Property, plant and equipment
3.3	Intangible assets
3.4	Goodwill
3.5	Right-of-use assets
3.6	Provisions

**AP** Denotes accounting policies

**J** Denotes significant accounting judgements

**E** Denotes significant accounting estimates and assumptions

#### Key highlights

	Note	2023 £m	2022 £m	Year on Year movement £m
<b>Working capital (current and non-current):</b>	3.1	<b>(351.9)</b>	(439.1)	87.2
Trade and other receivables	3.1.1	<b>363.0</b>	446.2	(83.2)
Trade and other payables	3.1.2	<b>(434.4)</b>	(507.6)	73.2
Deferred income	2.1	<b>(537.5)</b>	(640.7)	103.2
Contract fulfilment assets	3.1.3	<b>257.0</b>	263.0	(6.0)
<b>Property, plant and equipment</b>	3.2	<b>80.0</b>	101.1	(21.1)
<b>Intangible assets</b>	3.3	<b>90.0</b>	106.0	(16.0)
<b>Goodwill</b>	3.4	<b>495.7</b>	605.9	(110.2)
<b>Right-of-use assets</b>	3.5	<b>208.5</b>	249.5	(41.0)
<b>Provisions</b>	3.6	<b>(150.2)</b>	(127.3)	(22.9)

The decrease in trade and other receivables is primarily driven by a reduction in accrued income (£40.8m), trade receivables (£23.1m), other receivables (£9.2m) and prepayments (£6.4m). The reduction is largely a result of the disposal of businesses during the year (£78.6m), partly offset by an increase in current contract fulfilment assets (£2.6m).

The Group uses non-recourse trade receivables financing, with £35.2m of outstanding invoices sold under these facilities at 31 December 2023 (2022: £44.4m).

The decline in trade and other payables was primarily driven by a £79.9m decrease in the accruals, including the utilisation of the furlough repayment accrual, a reduction in the accrual for management bonuses and variable pay, and as a result of the disposal of businesses during the year. This was partly offset by an increase in trade payables (£29.3m).

The decrease in deferred income relates to contract lifecycles resulting in deferred income utilisation and accelerated revenue recognised of £9.9m, primarily relating to the early termination of a contract in Capita Experience. This was partially offset by contracts in transformation such as BBC TV Licencing and Transport for London.

Non-current contract fulfilment assets decreased as a result of additions of £79.5m predominantly in Capita Public Service on contracts in transformation, including TfL Networks and Royal Navy training, being more than offset by utilisations of £68.8m, mainly within Capita Public Service, derecognition of £12.3m and impairments of £3.4m within Capita Experience.

Property, plant and equipment decreased due to depreciation and impairment of £42.0m, including £7.1m of impairment on business exits, being partially offset by £28.8m of additions, including investment in technology across the Group.

Intangible assets decreased due to amortisation and impairment of £30.2m and transfer to assets held for sale of £10.0m being only partly offset by £32.8m of additions relating primarily to investment in capitalised and purchased software.

Goodwill decreased primarily as a result of businesses sold in the year (£3.2m), transfers to assets held for sale (£64.3m), and the impairment of certain cash generating units in the Capita Portfolio division (£42.2m) at the half year.

Right-of-use assets decreased due to depreciation and impairment of £64.0m, with impairment primarily related to the properties exited as part of the announced cost reduction programme. This has been partially offset by additions of £17.2m.

The increase in provisions of £22.9m during the year was predominantly due additions totalling £104.0m, with the largest addition being in relation to the announced cost reduction programme (£35.6m), along with increased claims and litigation provisions (£29.9m), additional customer contract provisions (£16.5m) and business exit provisions (£10.6m). This is partly offset by releases and utilisations totalling £82.9m.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.1 Working capital

##### 3.1.1 Trade and other receivables

###### AP Accounting policies

**Trade receivables:** Trade receivables are initially recognised at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure the amounts recognised represent their recoverable amount.

**Impairment:** For trade receivables, the Group applies the simplified approach permitted by IFRS 9 *Financial Instruments*, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty. Each customer has an external credit score which determines the level of credit provided.

**Derecognition:** A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (ie removed from the Group's consolidated balance sheet) when (i) the rights to receive the cash flows from the asset have expired; or, (ii) the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risk and rewards of the asset; or, (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Trade receivables that are sold without recourse are derecognised at the point of sale when the risks and rewards of the receivables have been fully transferred.

**Accrued income:** Accrued income in relation to contract assets is recognised when payments received from customers are less than the revenue recognised by the balance sheet date.

	Current		Non-current	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade receivables	126.8	149.9	—	—
Other receivables <sup>1</sup>	15.5	23.0	4.1	5.8
Other taxes and social security	2.3	9.6	1.0	—
Current contract fulfilment assets <sup>2</sup>	13.3	10.7	—	—
Accrued income	138.3	179.1	—	—
Prepayments	54.5	58.1	7.2	10.0
	350.7	430.4	12.3	15.8

1. Other receivables includes £0.3m (2022: £0.4m) of accrued interest on cross-currency interest rate swaps.

2. Refer to note 3.1.3 for non-current contract fulfilment assets.

Trade receivables are non-interest bearing and generally on 30-day terms.

The Group's accrued income balances solely relate to revenue from contracts with customers. Movements in the accrued income balances were driven by transactions entered into by the Group in the normal course of business during the year.

Movements in the loss allowance made against receivables were as follows:

	2023 £m	2022 £m
At 1 January	29.7	19.4
Utilised	(1.2)	(4.0)
Provided in the year	4.8	15.3
Released in the year	(25.6)	—
Business disposal	(1.1)	(1.0)
Transfer to disposal group assets held for sale <sup>1</sup>	(1.1)	—
At 31 December	5.5	29.7

1. Transfers to disposal group assets held for sale in the year ended 31 December 2023 represent amounts transferred at 30 June 2023 and subsequently sold during the second half of the year.

	2023 £m	2022 £m
Ageing of trade receivables		
Not due	79.4	118.5
Overdue by less than three months	19.3	26.9
Overdue between three and six months	4.9	6.3
Overdue between six and twelve months	5.4	9.9
Overdue more than twelve months <sup>1</sup>	23.3	18.0
Allowance for doubtful debts <sup>1</sup>	(5.5)	(29.7)
	126.8	149.9

1. The increase in amounts overdue by more than twelve months and the decrease in the allowance for doubtful debts primarily relate to a commercial settlement in the closed book Life & Pensions business which will not be received until a future date.

Under the simplified approach permitted by IFRS 9, all invoices six months or more past due are fully provided for unless there is a specific confirmation from the customer that the invoice will be settled during the following month, or there are specific circumstances such that recognition of a provision is not appropriate. Additionally, any other invoices where the customer relationship manager has identified significant financial problems which mean that customer is unlikely to pay the invoice in the near future are also provided for. No material amounts receivable were renegotiated such that they were not past due at the balance sheet date.

The Group trades only with third 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. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties that they can fulfil their obligations. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit loss remains low.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.1 Working capital continued

##### Non-recourse trade receivable financing

The value of invoices sold under the UK non-recourse trade receivables financing 31 December 2023 was £23.7m (2022: £36.9m). Additionally, in Germany the Group uses a non-recourse trade receivable financing arrangement for two specific customer contracts, the value of invoices sold under that arrangement at 31 December 2023 was £11.5m (2022: £7.5m).

The cost of selling such invoices totalled £3.7m (2022: £0.8m) and was included in net finance expense in the consolidated income statement (2022: administrative expenses).

##### 3.1.2 Trade and other payables

	Current		Non-current	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade payables	164.2	134.9	0.1	0.1
Other payables	27.9	32.8	6.0	6.5
Other taxes and social security	74.4	85.6	—	6.0
Accruals	159.4	239.2	2.4	2.5
	425.9	492.5	8.5	15.1

##### 3.1.3 Contract fulfilment assets (non-current)

###### AP Accounting policies

The Group regularly incurs costs to deliver its outsourcing services in a more efficient way (often referred to as 'transformation' costs). These costs may include process mapping and design, system development, project management, hardware (generally within the scope of the Group's accounting policy for property, plant and equipment), software licence costs (generally within the scope of the Group's accounting policy for intangible assets), recruitment costs and training.

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Group firstly considers any other applicable standards. If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15 *Revenue from Contracts with Customers*.

If other standards are not applicable to contract fulfilment costs, the Group applies the following criteria which, if met, result in capitalisation of costs that: (i) directly relate to a contract or to a specifically identifiable anticipated contract; (ii) generate or enhance resources that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) are expected to be recovered.

The Group has determined that, where the relevant specific criteria are met, the costs for (i) process mapping and design; (ii) system development; and (iii) project management; are likely to qualify to be capitalised as contract fulfilment assets.

The incremental costs of obtaining a contract with a customer are recognised as a contract fulfilment asset if the Group expects to recover them. The Group incurs costs such as bid costs, legal fees to draft a contract and sales commissions when it enters into a new contract.

The Group has determined that the following costs may be capitalised as contract fulfilment assets: (i) legal fees to draft a contract after the Group has been selected as preferred supplier; and (ii) sales commissions directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but expensed when incurred.

**Utilisation:** The utilisation charge is included within cost of sales. The Group utilises non-current contract fulfilment assets over the expected contract period on a systematic basis that mirrors the pattern in which the Group transfers control of the service to the customer.

**Derecognition:** A non-current contract fulfilment asset is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

**Impairment:** At each balance sheet date, the Group determines whether or not the non-current contract fulfilment assets are impaired by comparing the carrying amount of the asset with the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price are removed for the impairment test.

###### J Significant accounting judgements

Judgement is applied by the Group when determining what costs qualify to be capitalised, in particular when considering whether these costs are incremental and when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable. For example, the Group considers which type of sales commissions are incremental to the cost of obtaining specific contracts and the point in time when the costs will be capitalised. See note 2.1 for further information.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.1 Working capital continued

Movements in non-current contract fulfilment assets were as follows<sup>1</sup>:

	2023 £m	2022 £m
At 1 January	263.0	286.7
Impact of change in accounting standards – amendments to IAS 37 <sup>2</sup>	—	(2.4)
At 1 January 2022 on adoption of IAS 37	263.0	284.3
Additions	79.5	67.1
Transfer to disposal group assets held for sale <sup>3</sup>	(0.9)	—
Disposal of businesses	—	(2.8)
Impairment - included in adjusted profit	(3.3)	(3.8)
Impairment - included in business exits	(0.1)	—
Derecognition - included in adjusted profit	(4.1)	(0.4)
Derecognition - included in business exits	(8.2)	—
Utilisation - included in adjusted profit	(68.4)	(79.3)
Utilisation - included in business exits	(0.4)	(2.2)
Exchange movement	(0.1)	0.1
At 31 December	257.0	263.0

1. Refer to note 3.1.1 for current contract fulfilment assets.

2. The Group initially applied the amendments to IAS 37 at 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings.

3. Transfers to disposal group assets held for sale in the year ended 31 December 2023 includes £0.9m that was transferred at 30 June 2023 and subsequently sold during the second half of the year.

**Impairment:** In 2023, the Group recognised an impairment of £3.4m (2022: £3.8m) in cost of sales, of which, £nil (2022: £0.5m) relates to contract fulfilment assets added during the year.

**Derecognition:** In 2023, £12.3m (2022: £0.4m) was derecognised, primarily in relation to a contract in Capita Public Service following the termination of a customer contract and the Group having no further use for the assets (£8.2m). Subsequently the Group decided to exit the business this contract was within and therefore the derecognition of the contract fulfilment asset has been included within business exits (refer to note 2.8). In 2022 the derecognition related to a contract in Capita Experience where the scope of services changed due to termination of contracts and the Group had no further use for the assets.

#### 3.2 Property, plant and equipment

##### AP Accounting policies

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

**Depreciation:** Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

- Freehold buildings and long leasehold property – up to 50 years.
- Leasehold improvements – period of the lease.
- Plant and machinery – 3 to 10 years.

**Impairment:** The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are disclosed as administrative expenses in the consolidated income statement.

**Derecognition:** An item of property, plant and equipment is derecognised on disposal, or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in the consolidated income statement when the asset is derecognised.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.2 Property, plant and equipment *continued*

	2023			2022		
	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
<b>Cost</b>						
At 1 January	96.0	146.5	242.5	99.6	169.1	268.7
Additions	10.4	18.4	28.8	7.7	12.9	20.6
Disposal of businesses	(0.4)	(0.6)	(1.0)	—	(0.4)	(0.4)
Disposals – included in adjusted profit	(1.0)	(4.7)	(5.7)	(9.0)	(7.4)	(16.4)
Disposals – included in business exits	—	—	—	(0.1)	—	(0.1)
Transfer to disposal group assets held for sale <sup>2</sup>	(0.7)	(9.8)	(10.5)	—	—	—
Reclassifications to intangible assets	—	(1.2)	(1.2)	1.3	(1.8)	(0.5)
Asset retirements	(22.9)	(38.1)	(61.0)	(3.7)	(27.9)	(31.6)
Exchange movement	(0.4)	(1.6)	(2.0)	0.2	2.0	2.2
At 31 December	81.0	108.9	189.9	96.0	146.5	242.5
<b>Depreciation and impairment</b>						
At 1 January	42.5	98.9	141.4	40.5	99.2	139.7
Impact of change in accounting standards – amendments to IAS 37 <sup>1</sup>	—	—	—	—	0.5	0.5
At 1 January 2022 on adoption of IAS 37	42.5	98.9	141.4	40.5	99.7	140.2
Depreciation charged - included in adjusted profit	9.0	20.8	29.8	10.0	28.4	38.4
Depreciation charged - included in business exits	0.1	1.3	1.4	0.1	2.4	2.5
Disposal of businesses	(0.3)	(0.4)	(0.7)	—	(0.2)	(0.2)
Disposals – included in adjusted profit	(1.0)	(4.4)	(5.4)	(7.3)	(6.9)	(14.2)
Impairment – included in adjusted profit	—	0.9	0.9	2.0	2.7	4.7
Impairment – excluded from adjusted profit	2.8	—	2.8	—	—	—
Impairment – included in business exits	7.1	—	7.1	—	—	—
Transfer to disposal group assets held for sale <sup>2</sup>	(0.4)	(3.8)	(4.2)	—	—	—
Reclassifications to intangible assets	—	(0.6)	(0.6)	0.8	(0.8)	—
Asset retirements	(22.9)	(38.1)	(61.0)	(3.7)	(27.9)	(31.6)
Exchange movement	(0.5)	(1.1)	(1.6)	0.1	1.5	1.6
At 31 December	36.4	73.5	109.9	42.5	98.9	141.4
<b>Net book value</b>						
At 1 January	53.5	47.6	101.1	59.1	69.9	129.0
At 31 December	44.6	35.4	80.0	53.5	47.6	101.1

1. The Group initially applied the amendments to IAS 37 at 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings.

2. Transfers to disposal group assets held for sale in the year ended 31 December 2023 includes £1.2m that was transferred at 30 June 2023 and subsequently sold during the second half of the year.

At 31 December 2023, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £1.4m (2022: £2.7m), relating to building improvements on leased property.

As detailed in note 2.4, a charge of £54.4m has been recognised in 2023 for the costs to deliver the cost reduction programme. This includes property related costs of £31.1m arising from the associated rationalisation of the Group's property estate, which includes impairment of leasehold improvements of £2.8m. These costs have been excluded from adjusted profit.

Following the classification of a business as held for sale, a property leased by the Group and part occupied by the business being sold is no longer used by the Group. Following an impairment test, the property's leasehold improvements were impaired by £7.1m, along with an impairment of £0.2m of the right-of-use asset for this property (refer to note 3.5). Since the impairment was triggered by the disposal of a business, the charge has been excluded from adjusted profit and included in business exits (refer to note 2.8).

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.3 Intangible assets

##### AP Accounting policies

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the consolidated income statement when it is incurred. Development expenditure is similarly written off until the Group is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

Following initial recognition, the carrying amount of an intangible asset is its cost less accumulated amortisation and impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2023 or 2022.

**Amortisation:** Amortisation is charged on assets with finite lives. The amortisation method used reflects the expected pattern of consumption of future economic benefits and generally amortised on a straight-line basis, the amortisation periods used are as follows:

- Intangible assets acquired in business combinations – 1.5 to 20 years.
- Intangible assets purchased or internally capitalised – 3 to 20 years.

**Impairment:** Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, when there is an indicator of impairment.

**Derecognition:** Intangible assets are derecognised upon disposal, or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in the consolidated income statement when the asset is derecognised.

**The measurement of intangible assets other than goodwill in a business combination:** on the acquisition of a business, the identifiable intangible assets may include licences, customer lists and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset because in most cases no active market for the assets exists and therefore no observable value exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets.

**The assessment of costs capitalised as intangible assets to generate future economic benefits:** judgement is applied in assessing whether costs incurred, both internal and external, will generate future economic benefits. Judgements and estimates are applied in determining the carrying value of the assets, including assumptions made in respect of the status of the programme each asset relates to. Given the level of judgement and estimation involved in assessing future cash flows, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and require an adjustment to the carrying value of intangible assets, however any adjustment is not expected to be material.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.3 Intangible assets continued

	2023			2022		
	Intangible assets acquired in business combinations £m	Capitalised/purchased software £m	Total £m	Intangible assets acquired in business combinations £m	Capitalised/purchased software £m	Total £m
<b>Cost</b>						
At 1 January	3.0	194.6	197.6	55.4	222.7	278.1
Disposal of businesses	—	(15.7)	(15.7)	—	(33.0)	(33.0)
Additions	—	32.8	32.8	—	27.3	27.3
Disposals – included in adjusted profit	—	(2.0)	(2.0)	—	(11.7)	(11.7)
Disposals – included in business exits	—	—	—	—	(0.5)	(0.5)
Transfer to disposal group assets held for sale <sup>1</sup>	—	(15.3)	(15.3)	—	—	—
Reclassifications to property, plant and equipment	—	1.2	1.2	—	0.5	0.5
Asset retirements	—	(20.4)	(20.4)	(53.1)	(11.2)	(64.3)
Exchange movement	—	(0.2)	(0.2)	0.7	0.5	1.2
At 31 December	3.0	175.0	178.0	3.0	194.6	197.6
<b>Amortisation and impairment</b>						
At 1 January	2.3	89.3	91.6	49.6	81.2	130.8
Amortisation charged in the year - included in adjusted profit	—	25.8	25.8	—	25.5	25.5
Amortisation charged in the year - excluded from adjusted profit	0.2	—	0.2	5.1	—	5.1
Amortisation charged in the year - included in business exits	—	3.3	3.3	—	10.9	10.9
Impairment – included in adjusted profit	—	0.9	0.9	—	5.1	5.1
Impairment – included in business exits	—	—	—	—	0.8	0.8
Disposal of businesses	—	(7.1)	(7.1)	—	(12.6)	(12.6)
Disposals – included in adjusted profit	—	(1.6)	(1.6)	—	(10.0)	(10.0)
Disposals – included in business exits	—	—	—	—	(0.5)	(0.5)
Transfer to disposal group assets held for sale <sup>1</sup>	—	(5.3)	(5.3)	—	—	—
Reclassifications to property, plant and equipment	—	0.6	0.6	—	—	—
Asset retirements	—	(20.4)	(20.4)	(53.1)	(11.2)	(64.3)
Exchange movement	—	—	—	0.7	0.1	0.8
At 31 December	2.5	85.5	88.0	2.3	89.3	91.6
<b>Net book value</b>						
At 1 January	0.7	105.3	106.0	5.8	141.5	147.3
At 31 December	0.5	89.5	90.0	0.7	105.3	106.0

1. Transfers to disposal group assets held for sale in the year ended 31 December 2023 includes £9.9m that was transferred at 30 June 2023 and subsequently sold during the second half of the year.

Intangible assets acquired in business combinations comprise committed sales. Intangible assets capitalised or purchased include capitalised software development (net book value 2023: £75.6m; 2022: £90.9m) and purchased software (net book value 2023: £13.9m; 2022: £14.4m).

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.4 Goodwill

##### AP Accounting policies

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves and does not get recycled through the consolidated income statement.

At the acquisition date, any goodwill acquired is allocated to the cash-generating units (CGU) which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent company.

Prior to the adoption of IAS 27 *Separate Financial Statements (Amended)*, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

**Impairment of goodwill:** the Group determines whether goodwill is impaired on an annual basis, or more frequently if required, and this requires an estimation of the recoverable amount of the CGUs to which the intangible assets are allocated utilising an estimation of future cash flows and choosing a suitable discount rate.

	2023 £m	2022 £m
<b>Cost</b>		
At 1 January	1,423.3	1,676.8
Disposal of businesses	(199.6)	(255.0)
Transfer to disposal group assets held for sale <sup>1</sup>	(149.0)	—
Exchange movement	(0.5)	1.5
At 31 December	1,074.2	1,423.3
<b>Accumulated impairment</b>		
At 1 January	817.4	725.1
Disposal of businesses	(196.4)	(76.7)
Transfer to disposal group assets held for sale <sup>1</sup>	(84.7)	—
Impairment – excluded from adjusted profit	42.2	169.0
At 31 December	578.5	817.4
<b>Net book value</b>		
At 1 January	605.9	951.7
At 31 December	495.7	605.9

1. Transfers to disposal group assets held for sale in the year ended 31 December 2023 includes £49.3m that was transferred at 30 June 2023 and subsequently sold during the second half of the year.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.4 Goodwill *continued*

##### Cash-generating units

Reflecting the way management exercises oversight and monitors the Group's performance, the lowest level at which goodwill is monitored is at the divisional level for Capita Public Service and Capita Experience, and at a sub-divisional level for Capita Portfolio. At 31 December 2023, following the disposal, transfer to assets held for sale or transfer to another division of all the businesses that were under Capita Portfolio, the Group has two remaining CGUs or groups of CGUs for the purpose of impairment testing of goodwill.

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Capita Portfolio							Total £m
	Capita Public Service £m	Capita Experience £m	People £m	Software £m	Business Solutions £m	Travel £m	Fera £m	
At 1 January	284.6	209.8	1.7	36.3	21.7	36.8	15.0	605.9
Reclassifications	1.8	—	—	—	(1.8)	—	—	—
Disposal of businesses	—	—	(1.7)	—	—	(1.5)	—	(3.2)
Transfer to assets held for sale <sup>1</sup>	—	—	—	(36.3)	(13.0)	—	(15.0)	(64.3)
Impairment – excluded from adjusted profit	—	—	—	—	(6.9)	(35.3)	—	(42.2)
Exchange movement	—	(0.5)	—	—	—	—	—	(0.5)
<b>At 31 December</b>	<b>286.4</b>	<b>209.3</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>495.7</b>

1. Transfers to disposal group assets held for sale in the year ended 31 December 2023 includes £49.3m that was transferred at 30 June 2023 and subsequently sold during the second half of the year.

##### Business exits

As set out in note 2.8, six businesses were fully disposed of during the year. Goodwill relating to all of these businesses is included within the Group's brought forward goodwill balances at 1 January 2023, and has either been impaired during the course of the year, or derecognised as part of business disposals.

The Group's shareholding in Fera Science Limited was deemed to have met the threshold to be treated as held for sale at 31 December 2023, with goodwill relating to this business (Fera) reclassified to disposal group assets held for sale.

One business within the Capita Public Service division met the criteria to be treated as a business exit at 31 December 2023, however there is no goodwill attributable to this business.

##### The impairment test

In undertaking the annual impairment review, the directors considered both internal and external sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired. This included a comparison with the Group's share price and market capitalisation.

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal, and its value in use. As the Group implements the Group-wide cost reduction programme announced in November 2023 and referred to in the strategic report and note 2.4, and continues to be committed to evaluating additional cost savings opportunities, it has been determined that at 31 December 2023, fair value less costs of disposal will generate the higher recoverable amount.

The valuation of CGUs under fair value less costs of disposal assumes that a third-party acquirer will undertake a similar plan to derive similar benefits in the business going forward. The enterprise value of each CGU is dependent on the successful implementation of the cost reduction programme.

Fair value less costs of disposal for each CGU has been estimated using discounted cash flows. The fair value measurement was categorised as a Level-3 fair value based on the inputs in the valuation technique used. The costs of disposal have been estimated based on the Groups' significant disposals in recent years.

At 30 June 2023, a goodwill impairment of £35.3m was recognised in respect of the Travel CGU. This impairment arose primarily due to the expectation of acquirers factoring in additional investment and costs required to run the businesses outside of the Group, and general macroeconomic conditions. The Travel CGU was disposed of in the second half of 2023.

In addition, an impairment of £6.9m was recognised at 30 June 2023 in respect of a business in the Business Solutions group of CGUs in Capita Portfolio. Since the disposal process for this business was less far advanced, the recoverable amount of the CGU, being its value-in-use, was calculated based on operating the business into perpetuity. The goodwill impairment arose primarily due to a negotiated exit of an end customer, which negatively impacted the forecast financial performance of the business. In the second half of 2023 this business was moved into the Capita Public Service division and CGU.

At 31 December 2023, the estimated recoverable amount of each remaining Group of CGUs exceeded its respective carrying value. The key inputs to the calculations are described below, including changes in market conditions.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.4 Goodwill *continued*

##### Forecast cash flows

The cash flow projections prepared for the impairment test are derived from the 2024-2026 business plans (BP) approved by the Board, which are prepared on a nominal basis. Key assumptions in the BP include the delivery of planned revenue growth and the benefits that the cost reduction programme is anticipated to deliver, in particular in the Capita Experience CGU given recent past performance.

The going concern severe but plausible downside scenarios have taken account of the potential adverse financial impacts resulting from the following risks, which include the key assumptions noted above:

- revenue growth falling materially short of plan;
- operating profit margin expansion not being achieved;
- targeted cost savings delayed or not delivered;
- additional inflationary cost impacts which cannot be passed on to customers;
- unforeseen operational issues leading to contract losses and cash outflows; and
- unexpected financial costs linked to incidents such as data breaches and/or cyber-attacks.

As such, the below sensitivity analysis includes assessing the impact of these crystallising on the impairment test performed.

Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements since the corresponding balances are not included in the CGU carrying amount.

##### Allocation of central function costs

The Board has considered an appropriate methodology to apply when allocating central function costs. The methodology applied for the 2023 impairment test was aligned to that applied in reporting segmental performance (refer to note 2.5). The remaining Group related costs of Capita plc, which have not been allocated as part of segmental reporting, are allocated to CGUs for impairment testing purposes based on 2024 forecast Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA).

##### Long-term growth rate

The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to forecast cash flows for years four and five (2027 and 2028) and for the terminal period. The 2023 long-term growth rate is 1.7% (2022: 2.2%).

##### Discount rates

Management estimates discount rates using nominal pre-tax rates of comparator companies for each CGU or group of CGUs. The discount rates reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, and which are all based on publicly available external sources.

The table below presents the pre-tax discount rates applied to the cash flows for 2023 and 2022.

	Capita Public Service	Capita Experience
2023	11.0%	9.2%
2022	11.8%	10.4%

##### Sensitivity analysis

The impairment testing as described is reliant on the reliability of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. To gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which CGUs are the most susceptible to an impairment should the assumptions used be varied.

The sensitivity scenarios applied estimate potential impairments required (with all other variables being equal) through: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for the Group in total and each of the CGUs; or, through the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations, for 2024 to 2026, and the long-term growth rate (1.7%) applied to the 2026 downside cash flows to generate projected cash flows for 2027, 2028, and the terminal period. We have also considered the impact of all of the scenarios together, which is also a reasonable possible alternative.

No potential impairments have been identified under any of these sensitivity scenarios, including the combination sensitivity scenario.

##### Comparison to share price and market capitalisation

The company's market capitalisation indicates an enterprise value that continues to be significantly less than the Group's sum-of-the-parts CGU valuation based upon the model prepared for impairment testing purposes at 31 December 2023. The directors gave consideration as to why this might be the case and the reasonableness of the assumptions used within the impairment model, and whether these points could indicate additional indicators of impairment in respect of the Group's goodwill balances.

The factors considered included: the differing basis of valuations (including that third parties value the services sector on income statement multiples versus long-term view using a discounted cash flow for the basis of impairment testing under accounting standards), sum-of-the-parts view and the multiples achieved on recent disposals, general market assumptions of the sector which can ignore the liquidity profile and specific risks of an entity, and other specific items impacting the market's view of the Group at the moment.

Taking these points into consideration, the Board are comfortable that there is no impairment in respect of goodwill to be recognised at 31 December 2023, despite the continuing low market capitalisation of the Group.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.5 Right-of-use assets

##### AP Accounting policies

At the inception of the lease, the Group recognises a right-of-use asset at cost, which comprises the present value of minimum future lease payments determined at the inception of the lease. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. Amendments to lease terms resulting in a change in payments or the length of the lease results in an adjustment to the right-of-use asset and corresponding lease liability. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable.

Right-of-use assets exclude leases with low values and terms of twelve months or less. These leases are expensed to the consolidated income statement when incurred.

Following the classification of a business as held for sale, a property leased by the Group and part occupied by the business being sold is no longer used by the Group. The part of the leased property used by, and sub-leased to, the business held for sale (£31.3m) has remained a right-of-use asset and the remainder of the property (£0.2m) which is used by other third parties, was reclassified to investment property. The right-of-use asset leased to the business held for sale will be transferred to lease receivables on completion of the disposal in January 2024.

Following an impairment test, the investment property was written down to £nil and is included within the property category in the table opposite. Since the impairment was triggered by the disposal of a business, the charge has been included within business exits. Refer to note 2.8.

As detailed in note 2.4, a charge of £54.4m has been recognised in 2023 for the costs to deliver the cost reduction programme. This includes property related costs of £31.0m arising from the associated rationalisation of the Group's property estate, which includes impairment of right-of-use assets of £13.1m. These costs have been excluded from adjusted profit.

Other movements include amendments to existing leases.

Net Book Value	Property £m	Motor vehicles £m	Equipment £m	Total £m
At 1 January 2022	265.6	15.4	6.9	287.9
Addition of new leases	12.9	2.4	—	15.3
Depreciation charged - included in adjusted profit	(45.2)	(6.0)	(4.2)	(55.4)
Depreciation charged - included in business exits	(0.6)	—	—	(0.6)
Impairment - included in adjusted profit	2.4	—	0.3	2.7
Disposal of businesses	(0.2)	—	—	(0.2)
Disposals - included in adjusted profit	(6.2)	(1.6)	(0.5)	(8.3)
Disposals - included in business exits	(0.1)	—	—	(0.1)
Exchange movement	1.4	—	—	1.4
Other movements	7.0	0.4	(0.6)	6.8
At 31 December 2022	237.0	10.6	1.9	249.5
Addition of new leases	12.9	1.8	2.5	17.2
Depreciation charged - included in adjusted profit	(40.5)	(5.9)	(1.9)	(48.3)
Impairment - included in adjusted profit	(2.4)	—	—	(2.4)
Impairment - excluded from adjusted profit	(13.1)	—	—	(13.1)
Impairment - included in business exit	(0.2)	—	—	(0.2)
Transfer to disposal group assets held for sale	(1.0)	—	—	(1.0)
Disposal of businesses	(0.2)	—	—	(0.2)
Disposals - included in adjusted profit	(0.2)	(0.7)	(0.7)	(1.6)
Exchange movement	(1.9)	—	—	(1.9)
Other movements	9.7	0.1	0.7	10.5
At 31 December 2023	200.1	5.9	2.5	208.5

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.6 Provisions

##### AP Accounting policies

Provisions are recognised when the Group has a present legal or constructive obligation arising from past events, it is probable that cash will be paid to settle it, and the amount can be estimated reliably.

If the effect of the time value of money is material, provisions are discounted using the yield on government bonds which have a similar timing and currency of cash flows to the provision being discounted. Where required adjustments are made to the yields to reflect the risks specific to the cash flows being discounted. The unwinding of the discount is recognised as a financing cost in the consolidated income statement.

The value of the provision is determined based on assumptions and estimates in relation to the amount, timing and likelihood of actual cash flows, which are dependent on future events. Where no reliable basis of estimation can be made, no provision is recorded. However, contingent liabilities disclosures are given when there is a greater than remote probability of outflow of economic benefits. See note 6.2.

On an ongoing basis, management monitor provisions and their accurate estimation when compared to final outcomes.

##### E Denotes significant accounting estimates and assumptions

As detailed in note 2.1, in respect of onerous customer contract provisions, due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated estimates and assumptions that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract.

#### Provisions

The movements in provisions during the year are as follows:

	Cost reduction provision £m	Business exit provision £m	Claims and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	—	10.7	17.0	18.7	73.5	7.4	127.3
Provisions in the year	35.6	10.6	29.9	3.9	16.5	7.5	104.0
Releases in the year	—	(3.3)	(3.5)	(6.3)	(12.3)	(2.7)	(28.1)
Utilisation	(6.1)	(10.2)	(2.8)	(7.4)	(21.4)	(6.9)	(54.8)
Discount unwind on provisions	—	—	—	—	2.3	—	2.3
Transfer to disposal group liabilities held for sale <sup>1</sup>	—	—	—	(0.5)	—	—	(0.5)
Reclassification between categories	—	—	0.8	(0.6)	(0.1)	(0.1)	—
<b>At 31 December</b>	<b>29.5</b>	<b>7.8</b>	<b>41.4</b>	<b>7.8</b>	<b>58.5</b>	<b>5.2</b>	<b>150.2</b>
					31 December 2023 £m	31 December 2022 £m	
<b>Current</b>					<b>101.6</b>	75.7	
<b>Non-current</b>					<b>48.6</b>	51.6	
					<b>150.2</b>	127.3	

1. Transfers to disposal group assets held for sale in the year ended 31 December 2023 includes £0.5m that was transferred at 30 June 2023 and subsequently sold during the second half of the year

**Cost reduction provision:** The provision represents the cost of reducing headcount where communication to affected employees has crystallised a valid expectation that roles are at risk and it is likely to unwind over the next twelve months. Additionally, it relates to unavoidable running costs of leasehold properties, such as insurance and security, and dilapidation provisions, where properties are exited as a result of the cost reduction programme. These provisions are likely to unwind over periods of up to four years. Refer to note 2.4 for further details on the cost reduction programme.

**Business exit provision:** The provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. These are likely to unwind over a period of one to four years.

**Claims and litigation provision:** The Group is exposed to claims and litigation proceedings arising in the ordinary course of business. These matters are reassessed regularly and where obligations are probable and estimable, provisions are made based on the Group's best estimate of the expenditure to be incurred. Due to the nature of these claims, the Group cannot give an estimate of the period over which this provision will unwind.

## I Notes to the consolidated financial statements *continued*

### Section 3: Operating assets and liabilities *continued*

#### 3.6 Provisions *continued*

**Property provision:** The provision relates to unavoidable running costs, such as insurance and security, of leasehold property where the space is vacant or currently not planned to be used, and dilapidation costs, for ongoing operations, and not the cost reduction programme detailed in note 2.4 (where such costs are included in the cost reduction provision). The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to 23 years.

**Customer contract provision:** The provision includes onerous contract provisions in respect of customer contracts where the costs of fulfilling a contract (both incremental and costs directly related to contract activities) exceeds the economic benefits expected to be received under the contract, claims/obligations associated with missed milestones in contractual obligations, and other potential exposures related to contracts with customers. Customer contract life-time reviews are used to determine the value of an onerous contract provision. The life-time contract review reflects the forecast of the best estimate of external revenues and costs over the remaining contract term. These provisions are forecast to unwind over periods of up to six years.

The customer contract provision includes £53.3m (2022: £59.7m) in respect of closed book Life & Pensions contracts in Capita Experience. The closed books and contractual dynamics have led to onerous conditions to service certain of these contracts. Management has been required to assess the likely length of these contracts, given the pattern and experience of contract terminations while also recognising the evergreen clauses (which potentially allow the customer to extend the contracts indefinitely until the run-off of the underlying life and pension books is complete). Accordingly, the Group has, in prior years, provided for the onerous contract conditions based on the best estimate of the remaining contract terms and the period and likely costs to support the final handover of services. At 31 December 2023, the provision was increased to provide cover for contracts to extend out to December 2028 (ie a five year rolling period).

**Other provisions:** Relates to provisions in respect of other potential exposures arising as a result of the nature of some of the operations that the Group provides, including supplier audit and regulatory provisions. These are likely to unwind over periods of up to five years.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs

This section outlines the Group's capital structure and financing costs. The Group defines its capital structure as its cash and cash equivalents, non-current interest bearing loans and borrowings and equity. The Group aims to manage its capital structure to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Group manages its capital structure to maintain a sustainable mix of debt and equity that ensures that the Group can pursue its strategy. The Group makes adjustments to its capital structure in light of changes in economic conditions and strategic operational risk. To maintain or adjust the capital structure, the Group may return capital to shareholders through dividends and share buy backs, sell assets, raise additional equity, or arrange additional debt facilities.

- 4.1 Net debt, capital and capital management
- 4.2 Financial risk
- 4.3 Net finance costs
- 4.4 Leases
- 4.5 Financial instruments and the fair value hierarchy
- 4.6 Issued share capital
- 4.7 Group composition and non-controlling interests
- AP** Denotes accounting policies
- J** Denotes significant accounting judgements
- E** Denotes significant accounting estimates and assumptions

#### Key highlights

##### Net financial debt to adjusted EBITDA<sup>1</sup> (both pre-IFRS 16)

Aim: Maintain the ratio of net financial debt to adjusted EBITDA<sup>1</sup> (both pre-IFRS 16) at  $\leq 1.0x$  times over the medium term

# 1.2x

(2022: 0.5x)

##### Available liquidity<sup>1</sup>

# £282.3m

(2022: £405.2m)

1. Details of all alternative performance measures and related Key Performance Indicators (KPIs) can be found in section 8.2.

##### Capital strategy

The Group's capital strategy is to build a strong and flexible balance sheet, which supports the Group's strategic objectives, the investment needed to grow the business and allows for contributions required to reduce pension liabilities.

The Board aims to maintain the ratio of net financial debt to adjusted EBITDA, both on a pre-IFRS 16 basis at  $\leq 1.0x$  times over the medium term.

##### Liquidity

Available liquidity<sup>1</sup> at 31 December 2023 was £282.3m (2022: £405.2m) and during 2023 net financial debt (pre-IFRS 16) increased by £97.2m from £84.9m to £182.1m.

Liquidity remains a key area of focus, and in June 2023 the Group extended its revolving credit facility (RCF) to 31 December 2026 at £284m, reducing to £250m by 1 January 2025 as a consequence of specified transactions. The RCF was not drawn upon at 31 December 2023 and had a total committed value of £260.7m. This was subsequently reduced to £250m on 23 January 2024 following receipt of proceeds from the Fera disposal (refer to note 6.3).

A sustainability component has been included in the extended facility that can adjust the margin by up to five basis points conditional upon achieving agreed Environmental, Social and Governance (ESG) Key Performance Indicators (KPIs). These KPIs are:

1. Scope 1, Scope 2 (market based), and Scope 3 (business travel) absolute emissions reduction.
2. Employee engagement index.
3. Gender diversity at senior management level.

Additionally, in July 2023 the Group issued £101.9m equivalent of new private placement loan notes across three tranches: £50m maturing 25 July 2026, USD45m maturing 25 July 2026 and USD23m maturing 25 July 2028.

The RCF extension and private placement loan note issuance are a demonstration of debt providers' confidence in Capita and have enabled the Group to extend significantly the average maturity of its debt funding.

##### Net finance costs

Net finance costs increased by £20.5m to £52.2m (2022: £31.7m). £6.8m of this change relates to movements in the value of non-designated foreign exchange forward contracts, £2.3m to discount unwind on provisions, and the remainder is attributable to the higher interest rate environment and run-off of low-coupon debt.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.1 Net debt, capital and capital management

##### 4.1.1 Net debt and capital

The components of the Group's net debt and undrawn available liquidity are summarised below.

	Notes	2023 £m	2022 £m	Year on Year movement
Cash and cash equivalents	4.5.4	(162.6)	(396.8)	234.2
Overdraft	4.5.4	95.0	219.6	(124.6)
Lease liabilities	4.4.1	363.4	397.5	(34.1)
Private placement loan notes <sup>1</sup>	4.5.2	262.5	285.5	(23.0)
Other finance	4.5.2	0.1	0.7	(0.6)
Cross currency interest rate swaps	4.5.2	(13.6)	(24.8)	11.2
Deferred consideration	4.5.2	0.7	0.7	—
<b>Net debt</b>		<b>545.5</b>	<b>482.4</b>	<b>63.1</b>
Undrawn available financing facilities	4.5.2b	260.7	288.4	(27.7)
<b>Capital</b>		<b>806.2</b>	<b>770.8</b>	<b>35.4</b>

1. Private loan notes include US dollar and British pound sterling private placement loan notes.

A reconciliation of net debt shown above to cash flow can be found in note 2.9.3.

The overdrafts are part of a notional cash pooling arrangements in which the balances are fully offset by cash balances within the same arrangements.

During the year, USD and GBP private placement loan notes of £32.7m and £42.1m were repaid at maturity in January 2023 and October 2023 respectively. The associated currency and interest rate swaps also expired on these dates, such that the combined net cash outflow for these repayments was £66.3m. Additionally, as a result of mandatory prepayment provisions related to disposal proceeds, £16.0m of Euro private placement loan notes were repaid in February and March. The remaining £30.2m balance of these Euro notes, originally due for payment in November 2027, were early settled in August.

##### 4.1.2 Capital management

Capital management forms an important component of Board meetings, including reviews of forecast gearing, key covenant tests, and the mix of funding sources, thereby ensuring sustainability and flexibility. Shareholder returns are reviewed in accordance with the Group's generation of sustainable free cash flow.

The Group's capital management process ensures that it meets the financial covenants of its borrowing arrangements. There are two separate sets of covenant tests underlying the Group's financial instruments with the key difference being the treatment of IFRS 16. Under the test for the bank facilities and US private placement loan notes these covenants are based on maintaining minimum ratios associated with adjusted net debt to adjusted EBITDA and annualised interest cover. There have been no breaches in the financial covenants of any loans or borrowings during the reporting period.

The committed RCF provides the liquidity needed to cover the cash fluctuations of the business cycle, allowing a buffer for contingencies.

Capita plc supports the obligations of its various regulated financial services businesses. The board of each regulated firm is responsible for ensuring it has embedded capital management frameworks that ensure the availability of adequate financial resources at all times, and all of them complied with all externally imposed financial services regulatory capital requirements applicable to them.

In the UK, to provide working capital funding at an economically favourable rate versus the RCF, the Group uses a non-recourse trade receivables financing, the value of invoices sold under this arrangement at 31 December 2023 was £23.7m (2022: £36.9m). Additionally, in Germany the Group uses a non-recourse trade receivable financing arrangement for two specific customer contracts, the value of invoices sold under that arrangement at 31 December 2023 was £11.5m (2022: £7.5m).

#### 4.2 Financial risk

##### Financial risk management objectives and policies

The Group's Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework, which is outlined on pages 57 to 63 of the strategic report. The Group's principal financial instruments comprise cash, bank loans, private placement loan notes, lease assets and liabilities, and derivatives. The purpose of these is to fund and provide liquidity for the Group's operations and to manage its financial risks. The Group has various other financial instruments including trade receivables and trade payables arising from its operations.

Derivatives comprise cross-currency interest rate swaps, and forward foreign currency contracts executed with its relationship banks, all of which have investment grade credit ratings. The derivatives' purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance. It is the Group's policy that no speculative trading in financial instruments is undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, interest rate risk, and credit risk. The Board periodically reviews and agrees policies for managing these risks, which are summarised below.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.2 Financial risk continued

##### 4.2.1 Liquidity risk

The Group monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis, taking into consideration the maturity of the Group's financial instruments, projected cash flows from operations and an allowance for contingencies.

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans. Multiple sources of funding are used to maintain a balance between continuity of funding and flexibility without placing reliance on sources that are not contractually committed.

The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. In June 2023, the Group extended its RCF to 31 December 2026 at £284m, reducing to £250m by 1 January 2025 as a consequence of specified transactions. As such at 31 December 2023 the RCF commitment had been reduced to £260.7m (2022: £288.4m) and was subsequently reduced to £250.0m on 23 January 2024 following receipt of proceeds from the Fera disposal (refer to note 6.3).

The RCF was not drawn upon at 31 December 2023 (2022: undrawn).

The Group's core funding is provided by private placement loan notes, and to mitigate the risk of needing to refinance in challenging conditions, these have been arranged with a spread of maturities to July 2028.

The bank facilities and private placement loan notes all include provisions that would require repayment in the event of a change of control, which are typical of these arrangements.

In February 2023, the Group executed a committed bridge facility with three of its relationship banks providing additional liquidity from 1 January 2024. This was cancelled in July 2023.

The tables below summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows. All balances are stated based on the prevailing foreign exchange rates and the contractual interest rates at the balance sheet date.

At 31 December 2023	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft*	95.0	—	—	—	—	—	95.0
Private placement loan notes	—	88.0	119.1	45.3	18.1	—	270.5
Interest on loan notes	15.0	13.3	11.7	2.3	1.5	—	43.8
Lease liabilities	71.3	55.0	42.9	35.8	30.9	276.1	512.0
Deferred consideration	—	—	0.7	—	—	—	0.7
Put options of non-controlling interests	8.5	—	—	—	—	—	8.5
Cross-currency interest rate swaps	1.2	1.2	1.2	—	—	—	3.6
Cash flow hedges currency swaps	5.0	5.0	5.0	1.7	1.7	—	18.4
Cash flow hedges Interest rate swaps	1.7	1.7	—	—	—	—	3.4
Other financial instruments	0.1	—	—	—	—	—	0.1
	<b>197.8</b>	<b>164.2</b>	<b>180.6</b>	<b>85.1</b>	<b>52.2</b>	<b>276.1</b>	<b>956.0</b>

\* The Group has a notional cash pool under which the bank may net cash balances with overdrafts held by other Group companies in the arrangements. The overdraft balances shown are fully offset by credit balances in the same arrangement.

At 31 December 2022	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft*	219.6	—	—	—	—	—	219.6
Private placement loan notes	75.0	—	91.4	34.7	94.0	—	295.1
Interest on loan notes	9.6	7.9	6.2	4.5	2.6	—	30.8
Lease liabilities	76.1	64.9	49.0	39.7	33.6	296.7	560.0
Deferred consideration	—	—	—	—	0.7	—	0.7
Put options of non-controlling interests	9.2	—	—	—	—	—	9.2
Cross-currency interest rate swaps	0.8	0.8	0.8	0.8	—	—	3.2
Other financial instruments	0.7	—	—	—	—	—	0.7
	<b>391.0</b>	<b>73.6</b>	<b>147.4</b>	<b>79.7</b>	<b>130.9</b>	<b>296.7</b>	<b>1,119.3</b>

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.2 Financial risk continued

##### 4.2.2 Foreign currency risk

The Group is not generally exposed to significant foreign currency transaction risk with two exceptions.

Firstly, services are provided by the Group's operations in India, South Africa and Poland and incurred in Indian rupee (INR), South African rand (ZAR) and Polish zloty (PLN). The Group seeks to mitigate the short term effect of this exposure by entering into forward foreign exchange contracts to fix the British pounds sterling (GBP) cost of highly probable transactions.

At 31 December 2023, the Group held forward foreign exchange contracts against forecast internal monthly INR, ZAR and PLN costs expected in the periods up to and including December 2024, August 2028, and December 2026 respectively. These forecast costs have been determined on the basis of the underlying cash flows associated with the delivery of services under executed customer contracts.

Secondly, the Group holds foreign exchange forwards against committed costs relating to the purchase of cloud software services in US dollars (USD) in the periods up to and including October 2028.

To maximise hedge effectiveness, forward foreign exchange contracts are executed with terms matching the underlying cash flows.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a 5% strengthening/(weakening) in INR, ZAR, PLN, and USD exchange rates, assuming all other variables are unchanged, that would arise from the resulting changes in the fair value of the Group's forward exchange contracts.

	2023		2022	
	Effect on profit before tax £m	Effect on equity £m	Effect on profit before tax £m	Effect on equity £m
USD	0.6	4.8	—	0.8
INR	—	3.4	—	0.3
ZAR	0.5	3.8	1.8	—
PLN	—	0.2	0.1	—

##### 4.2.3 Interest rate risk

The Group manages its interest rate exposure, which arises from the Group's private placement loan notes, cash, deposits and RCF drawings at variable interest rates through cross-currency interest rate swaps and interest rate swaps. The cross currency interest rate swaps are designated in a mix of fair value and cash flow hedges against the fair value changes of the private placement loan notes and variability in future cash flows.

The net level of floating rate interest exposure is managed, to arrive at an acceptable overall interest rate risk profile. The interest rate profile of the Group's interest-bearing financial instruments was as follows:

Nominal amounts At 31 December 2023	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
<b>Fixed rate</b>							
Private placement loan notes	—	75.9	119.4	40.9	18.1	—	254.3
<b>Floating rate</b>							
Cash in hand	(162.6)	—	—	—	—	—	(162.6)
Overdraft	95.0	—	—	—	—	—	95.0

Nominal amounts At 31 December 2022	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
<b>Fixed rate</b>							
Private placement loan notes	27.5	—	29.7	18.6	71.2	—	147.0
<b>Floating rate</b>							
Cash in hand	(396.8)	—	—	—	—	—	(396.8)
Overdraft	219.6	—	—	—	—	—	219.6
Private placement loan notes	38.8	—	46.2	15.5	17.1	—	117.6

A sensitivity analysis to changes in interest rates shows that a 0.5% increase or decrease in interest rates, assuming all other variables are held constant, results in a £nil (2022: £0.6m) increase or decrease to profit before tax, and no impact on the Group's equity.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.2 Financial risk continued

##### 4.2.4 Hedges

###### Fair value hedges

The Group's fixed rate USD and GBP private placement loan notes are hedged through a combination of cross-currency interest rate swaps. The cross-currency interest rate swaps hedge the exposure to changes in the fair value of US dollar denominated loan notes. The loan notes and their corresponding swaps have the same critical terms including nominal values and maturity dates.

The total loss in the year on the fair value hedges of £11.1m (2022: £3.2m loss) was equal to the loss on the hedged items resulting in no net gain or loss in the income statement apart from hedge ineffectiveness from credit risk and currency basis risk. This effect of hedge ineffectiveness resulted in a £1.0m credit (2022: £0.2m debit) to the consolidated income statement, shown in net finance costs, note 4.3.

The impact of the hedged item and the related financial derivatives on the consolidated balance sheet at 31 December 2023 is as follows:

Fair value hedges	Hedged risk	Notional amount of the hedging instrument		Carrying amount of the hedging instrument		Line item in the balance sheet	Change in fair value used for measuring ineffectiveness £m
		Assets £m	Liabilities £m	Assets £m	Liabilities £m		
Cross-currency interest rate swaps	Foreign exchange risk/ Interest rate risk	63.3	15.5	14.5	(0.9)	Financial assets/ Liabilities	(11.1)
		Carrying amount £m	Accumulated fair value adjustment £m	Line item in the balance sheet	Change in fair value used for measuring ineffectiveness £m		
Private placement loan notes		262.5	13.6	Financial Liabilities	11.1		

###### Cash flow hedges

The Group holds the following foreign exchange contracts to manage various exposures across its business operations:

- non-deliverable forward foreign exchange contracts (NDFs), that are designated as hedges of the highly probable transactions in INR of the Group's Indian operations. The terms of the NDFs match the terms of these commitments.
- foreign exchange forward contracts against committed costs relating to the purchase of cloud software services in USD for the periods up to and including October 2028.
- foreign exchange forward contracts against committed costs to manage foreign exchange exposure on services provided by the operations in South Africa, incurred in ZAR, and Poland incurred in PLN.

Additionally, during 2023 the Group executed currency and interest rate swaps to mitigate its foreign exchange and interest rate exposure on the private placement loan notes.

Cash flow hedges	Hedged risk	Notional amount of the hedging instrument		Carrying amount of the hedging instrument		Line item in the balance sheet	Change in fair value used for measuring ineffectiveness £m
		Assets £m	Liabilities £m	Assets £m	Liabilities £m		
Foreign exchange forward contracts - forecasted purchases	Foreign exchange risk	50.2	149.9	1.8	(3.6)	Financial assets/ liabilities	(7.3)
Interest rate swaps - private placement loan notes	Interest rate risk	32.6	46.2	0.1	(0.6)	Financial assets/ liabilities	(0.6)
Cross currency swaps - private placement loan notes	Foreign exchange risk	—	51.9	—	(1.2)	Financial assets/ liabilities	(1.2)
		82.8	248.0	1.9	(5.4)		(9.1)

The fair value of cash flow hedging instruments held at 31 December 2023 is shown in note 4.5.2.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.2 Financial risk continued

The cash flow hedges have been assessed to be highly effective. The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments. The following table provides an analysis of components of equity resulting from cash flow hedge accounting:

	2023 £m	2022 £m
At 1 January	4.1	(0.7)
Change in fair value recognised in the consolidated statement of other comprehensive income	(8.5)	11.5
Reclassified to the consolidated income statement:		
recognised in administrative expenses	(2.0)	(5.1)
Change in tax	2.6	(1.6)
At 31 December	(3.8)	4.1

#### 4.2.5 Credit risk

The carrying values of the Group's financial assets and contract assets represent its maximum credit exposure.

The mark-to-market movement on derivatives includes the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties (ie the expected credit losses) to those instruments and that of the Group itself (own credit risk). The Group is comfortable that the risk attached to those counterparties is not significant and believes that the swaps continue to act as an effective hedge against the movements in the fair value of the Group's private placement loan notes.

#### 4.3 Net finance costs

The table below shows the composition of net finance costs, including those excluded from adjusted profit:

	Notes	2023 £m	2022 £m
<b>Interest income</b>			
Interest on cash		(1.9)	(1.1)
Interest on finance lease assets		(4.1)	(4.2)
Net interest income on defined benefit pension schemes	5.2	(2.7)	(3.6)
<b>Total interest income</b>		<b>(8.7)</b>	<b>(8.9)</b>
<b>Interest expense</b>			
Private placement loan notes <sup>1</sup>		16.3	12.0
Bank loans and overdrafts		14.1	8.4
Cost of non-recourse trade receivables financing	3.1.1	3.7	—
Interest on finance lease liabilities		22.3	22.5
Discount unwind on provisions	3.6	2.3	—
<b>Total interest expense</b>		<b>58.7</b>	<b>42.9</b>
<b>Net finance expense included in adjusted profit</b>		<b>50.0</b>	<b>34.0</b>
<b>Included within business exits</b>			
Bank loans and overdrafts		—	1.0
Interest on finance lease liabilities		—	0.1
<b>Other items excluded from adjusted profits</b>			
Non-designated foreign exchange forward contracts – change in mark-to-market value		3.2	(3.6)
Fair value hedge ineffectiveness <sup>2</sup>	4.2.4	(1.0)	0.2
<b>Net finance expense/(income) excluded from adjusted profit</b>		<b>2.2</b>	<b>(2.3)</b>
<b>Total net finance expense</b>		<b>52.2</b>	<b>31.7</b>

1. Private placement loan notes comprise US dollar and British pound sterling private placement loan notes, and the euro fixed rate bearer notes which were repaid during 2023.

2. Fair value hedge ineffectiveness arises from changes in currency basis, and the movement in a provision for counterparty risk associated with the swaps.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.4 Leases

##### **AP** Accounting policies

The Group leases various assets, comprising land and buildings, equipment and motor vehicles.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The following sets out the Group's lease accounting policy for all leases with the exception of leases with low value and term of twelve months or less which are expensed to the consolidated income statement.

##### The Group as a lessee – Right-of-use assets and lease liabilities

The accounting policy for right-of-use assets is included in note 3.5.

The Group recognises lease liabilities where a lease contract exists and right-of-use assets representing the right to use the underlying leased assets.

At the commencement of a lease, the Group recognises the lease liability measured at the present value of the lease payments to be made over the lease term.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Incremental borrowing rates are determined monthly and depend on the term, country, currency and commencement date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on swap market data; a country-specific risk adjustment; a credit risk adjustment; and an entity-specific adjustment where the entity risk profile is different to that of the Group.

The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term.

Lease payments are apportioned between a finance charge and a reduction of the lease liability based on the constant interest rate applied to the remaining balance of the liability. Interest expense is included within net finance costs in the consolidated income statement.

Lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Group has reasonable certainty that the option will be exercised, and periods covered by an option to terminate are included if it is reasonably certain that this will not be exercised.

The Group has elected to apply the practical expedient in IFRS 16 *Leases* paragraph 15 not to separate non-lease components such as service charges from lease rental charges.

##### The Group as a lessor

When the Group acts as a lessor, it determines at lease commencement whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease. If not, then it is an operating lease.

The Group acts as an intermediate lessor of property assets and equipment. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset arising from the head lease.

In instances where the Group is the intermediate lessor and the sub-lease is classified as a finance lease, the Group recognises a net investment in sub-leases for amounts recoverable from the sub-lessees while derecognising the respective portion of the right-of-use asset. The lease liability is retained on the balance sheet. The net investment in sub-leases is classified as current or non-current finance assets in the consolidated balance sheet according to whether or not the amounts will be recovered within twelve months of the balance sheet date. Finance income recognised in respect of net investment in sub-leases is presented within net finance costs in the consolidated income statement and the capital element of lease rental received is presented within investing activities in the consolidated cash flow statement.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term. The Group accounts for finance leases as finance lease receivables, using an incremental borrowing rate where the interest rate implicit in sub-lease is not easily determinable.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.4 Leases continued

##### 4.4.1 The Group as a lessee

Amounts recognised on the balance sheet	2023 £m	2022 £m	Type of financial instrument
Lease liabilities	<b>363.4</b>	397.5	Financial liabilities

The lease liability includes £7.3m (2022: £5.0m) of future lease payments (undiscounted) for leases with termination options that could be exercised but are recognised at full term. The potential future cash outflows of £10.5m (2022: £13.2m) (undiscounted) have not been included in the lease liability because the Group is reasonably certain that the leases will not be extended. The total cash outflow for leases was £81.4m (2022: £84.4m) consisting of interest paid of £22.3m (2022: £22.6m) and capital element of £59.1m (2022: £61.8m).

Right-of-use assets are disclosed in note 3.5, the maturity analysis of lease liabilities is included in note 4.2.1 and interest expense in note 4.3.

##### 4.4.2 The Group as a lessor

Amounts recognised on the balance sheet	2023 £m	2022 £m	Type of financial instrument
Lease receivables	<b>70.3</b>	76.3	Financial assets

The maturity analysis of lease receivables, including the undiscounted lease payments to be received, is as follows:

	2023 £m	2022 £m
Within 1 year	<b>9.9</b>	9.8
Between 1-2 years	<b>8.2</b>	9.7
Between 2-3 years	<b>7.7</b>	8.2
Between 3-4 years	<b>4.0</b>	7.7
Between 4-5 years	<b>4.0</b>	4.0
More than 5 years	<b>65.5</b>	70.2
Total undiscounted lease payments receivable	<b>99.3</b>	109.6
Unearned finance income	<b>(29.0)</b>	(33.3)
<b>Net investment in lease receivables</b>	<b>70.3</b>	76.3

Change in finance lease receivables during the year	2023 £m	2022 £m
At 1 January	<b>76.3</b>	82.1
Payments received	<b>(10.1)</b>	(10.0)
Interest accrued (see note 4.3)	<b>4.1</b>	4.2
At 31 December	<b>70.3</b>	76.3

The expenses related to short-term leases, leases of low-value assets and income from sub-leases are immaterial and therefore there is no separate disclosure.

During 2020, the Group sublet a leased property. The sub-lease includes an option for the lessee to terminate the lease earlier than the Group's lease with its landlord. Management assessed it was reasonably certain that the break clause will not be exercised and, accordingly, determined that the sub-lease is a finance lease. This resulted in the recognition of a finance lease receivable. This judgement was based on a number of factors as prescribed within IFRS 16 such as incentive to lessee, importance of the location to the lessee's operations, shorter non-cancellable period of the lease, and the lessee's modifications to, and customisation of, the property. At 31 December 2023, the lease receivable was £66.3m and is included in the balance above.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.5 Financial instruments and the fair value hierarchy

##### AP Accounting policies

###### Financial instruments – classification of financial instruments

The Group classifies its financial instruments in the following measurement categories:

- those to be measured subsequently at fair value, either through other comprehensive income (FVOCI) or through profit or loss (FVPL); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

###### Financial instruments – initial recognition

At initial recognition, the Group measures a financial instrument at its fair value plus, in the case of a financial instrument not at FVPL, transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at FVPL are expensed in the consolidated income statement.

Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Purchases and sales of financial instruments are recognised on their trade date (ie the date the Group commits to purchase or sell the instrument). Financial instruments are derecognised when the rights to receive/pay cash flows from the financial instrument have expired or have been transferred such that the Group has transferred substantially all risks and rewards of ownership.

###### Debt instruments

Debt instruments are initially recognised at fair value less directly attributable transaction costs and are subsequently remeasured depending on the Group's business model for managing the instrument and the cash flow characteristics of the debt instrument. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** instruments that are held for collection/payment of contractual cash flows are measured at amortised cost where those cash flows represent solely payments of principal and interest. Interest income/expense from these financial instruments is included in net finance costs using the effective interest rate method.
- **FVOCI:** instruments that are held for collection/payment of contractual cash flows and for selling the financial instrument are measured at FVOCI where the instrument's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through consolidated Other Comprehensive Income (OCI), except for the recognition of impairment gains or losses, interest income and foreign exchange gains/losses, which are recognised in the consolidated income statement. When the financial instrument is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified to the consolidated income statement and recognised in other gains/(losses).
- **FVPL:** instruments that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain/loss on a debt instrument that is measured at FVPL is recognised in the consolidated income statement and presented within net finance costs.

The Group reclassifies debt instruments when, and only when, its business model for managing those instruments changes.

###### Equity instruments

Investments in equity instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recognised through the consolidated income statement, except where an election has been made for the movement to be recognised through OCI. An election can be made on initial recognition of equity instruments that are neither held-for-trading or instruments acquired as part of a business combination. Once an election has been made all movements in fair value, with the exception of dividends, are presented through OCI and there is no subsequent reclassification of fair value gains/losses to the consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated income statement as other income when the Group's right to receive payment is established.

###### Impairment

The Group assesses, on a forward looking basis, the expected credit losses associated with its financial instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

###### Derivatives

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value at the end of each reporting period with the movement recognised through the consolidated income statement, except where derivatives qualify for cash flow hedge accounting. The effective proportion of cash flow hedges is recognised in OCI and presented in the hedging reserve within equity. The cumulative gain/loss is subsequently reclassified to the consolidated income statement in the same period that the relevant hedged transaction is realised.

###### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

##### 4.5.1 Fair value hierarchy

The Group's financial assets and liabilities are classified based on the following fair value hierarchy:

- **Level-1:** quoted (unadjusted) prices in active markets for identical assets or liabilities.
- **Level-2:** other techniques for which inputs that have a significant effect on the recorded fair value are based on observable (directly or indirectly) market data. With the exception of current financial instruments (which have a short maturity), the fair value of the Group's level-2 financial instruments were calculated by discounting the expected future cash flows at prevailing interest rates. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. In the case of floating rate borrowings the nominal value approximates to fair value because interest is set at floating rates where payments are reset to market values at intervals of less than one year.
- **Level-3:** other techniques for which inputs that have a significant effect on the recorded fair value are not based on observable market data.

Other financial instruments, where observable market data is not available, are carried at either amortised cost or cost (undiscounted cash flows) as a reasonable approximation of fair value.

During the year ended 31 December 2023, there were no transfers between fair value levels.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.5 Financial instruments and the fair value hierarchy continued

##### 4.5.2 Financial instruments and their fair value hierarchy classification

The following table analyses, by classification and category, the carrying value of the Group's financial instruments and identifies the level of the fair value hierarchy for the instruments carried at fair value:

At 31 December 2023	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non- current £m
<b>Financial assets</b>									
Lease receivables	4.4.2	n/a	—	—	—	70.3	70.3	6.3	64.0
Cash flow hedges – foreign exchange contracts	4.2.4	Level-2	—	—	1.8	—	1.8	1.4	0.4
Cash flow hedges – Interest rate swaps	4.2.4	Level-2	—	—	0.1	—	0.1	0.1	—
Non-designated foreign exchange forwards and swaps		Level-2	0.3	—	—	—	0.3	0.3	—
Cross-currency interest rate swaps	a	Level-2	—	—	14.5	—	14.5	—	14.5
Originated loans receivable		n/a	—	—	—	0.7	0.7	—	0.7
Financial assets at fair value through P&L		Level-3	16.9	—	—	—	16.9	—	16.9
Financial assets at fair value through OCI		Level-3	—	0.7	—	—	0.7	—	0.7
Deferred consideration receivable		n/a	—	—	—	20.0	20.0	20.0	—
			17.2	0.7	16.4	91.0	125.3	28.1	97.2
<b>Other financial assets</b>									
Cash	4.5.4	n/a	—	—	—	155.4	155.4	155.4	—
Cash included within disposal group assets held for sale	2.8	n/a	—	—	—	7.2	7.2	7.2	—
<b>Total financial assets</b>			17.2	0.7	16.4	253.6	287.9	190.7	97.2
<b>Financial liabilities</b>									
Private placement loan notes	a	n/a	—	—	—	262.5	262.5	—	262.5
Other finance		n/a	—	—	—	0.1	0.1	0.1	—
Cash flow hedges – foreign exchange contracts	4.2.4	Level-2	—	—	3.6	—	3.6	1.5	2.1
Cash flow hedges – currency swaps	4.2.4	Level-2	—	—	1.2	—	1.2	—	1.2
Cash flow hedges – interest rate swaps	4.2.4	Level-2	—	—	0.6	—	0.6	0.6	—
Non-designated foreign exchange forwards and swaps		Level-2	0.2	—	—	—	0.2	0.1	0.1
Cross-currency interest rate swaps	a	Level-2	—	—	0.9	—	0.9	—	0.9
Deferred consideration payable		n/a	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	c	Level-3	—	8.5	—	—	8.5	8.5	—
			0.2	8.5	6.3	263.3	278.3	10.8	267.5
<b>Other financial liabilities</b>									
Overdrafts	4.5.4	n/a	—	—	—	95.0	95.0	95.0	—
Lease liabilities	4.4.1	n/a	—	—	—	363.4	363.4	51.1	312.3
<b>Total financial liabilities</b>			0.2	8.5	6.3	721.7	736.7	156.9	579.8

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.5 Financial instruments and the fair value hierarchy *continued*

Financial assets measured at amortised cost consist of cash, lease receivables, originated loans and deferred consideration receivable. The carrying value of cash is a reasonable approximation of its fair value due to the short-term nature of the instruments. Lease receivables, originated loans and deferred consideration receivable are measured at amortised cost using the effective interest rate method. Included in other investments are £0.7m (2022: £0.8m) of strategic investments in unlisted equity securities which are not held-for-trading and the Group elected to recognise at Fair Value through Other Comprehensive Income (FVOCI). During the period no dividends were received from, and no disposals were made of, strategic investments.

The financial assets at Fair Value through Profit and Loss (FVPL) relate to the Group's minority shareholding in companies as part of Capita Scaling Partners. The assets are revalued when reliable information on fair value becomes available, which is normally at each funding round.

Financial liabilities measured at amortised cost consist of loan notes, overdrafts, lease liabilities, credit facilities and deferred consideration payable. With the exception of certain series within the fixed rate private placement loan notes, the carrying value of financial liabilities are a reasonable approximation of their fair value. This is because either the interest payable is close to market rates or the liability is short-term in nature. The private placement loan note series, for which this approximation does not apply, are those that are subject to longer term fixed rate of interest – these have an underlying carrying value of £173.9m (2022: £144.9m) and a fair value of £166.3m (2022: £130.2m). Lease liabilities and deferred consideration payable are measured at amortised cost using the effective interest rate method.

The Group's key financial liabilities are set out below:

##### a. Private placement loan notes

The private placement loan notes were issued in USD and GBP. The Group manages its exposure to foreign exchange and interest rate movements through cross-currency interest rate swaps, interest rate swaps, and forward foreign exchange contracts.

##### b. Bank facilities

Details of the Group's bank facilities are provided in the liquidity section above. At 31 December 2023, the total value of committed facilities was £260.7m, of which none was drawn (2022: total facilities of £288.4m of which none was drawn). The committed facilities were subsequently reduced to £250m on 23 January 2024 following receipt of proceeds from the Fera disposal (refer to note 6.3).

##### c. Put options of non-controlling interests

The liability at 31 December 2023 represents the present value of the cost to acquire the non-controlling interest in Fera Science Limited. The option held by the non-controlling shareholder of Fera Science Limited has been exercisable since April 2021. A sensitivity analysis assuming a 10% increase/decrease in the earnings potential of the business results in a £0.9m increase/decrease in the valuation. The put option expired without being exercised on completion of the sale of the Group's shareholding in Fera Science Limited on 17 January 2024 (refer to note 6.3), and the related liability was de-recognised. Upon inception of the option agreements, management determined that changes in the carrying amount would be recognised within equity. This has been applied consistently.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.5 Financial instruments and the fair value hierarchy *continued*

At 31 December 2022	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non- current £m
<b>Financial assets</b>									
Lease receivables	4.4.2	n/a	—	—	—	76.3	76.3	5.9	70.4
Cash flow hedges – foreign exchange contracts	4.2.4	Level-2	—	—	5.4	—	5.4	3.0	2.4
Non-designated foreign exchange forwards and swaps		Level-2	5.3	—	—	—	5.3	4.4	0.9
Cross-currency interest rate swaps	a	Level-2	—	—	25.8	—	25.8	8.3	17.5
Originated loans receivable		n/a	—	—	—	0.5	0.5	—	0.5
Financial assets at fair value through P&L		Level-3	17.2	—	—	—	17.2	—	17.2
Financial assets at fair value through OCI		Level-3	—	0.8	—	—	0.8	—	0.8
Deferred consideration receivable		n/a	—	—	—	10.5	10.5	2.0	8.5
			22.5	0.8	31.2	87.3	141.8	23.6	118.2
<b>Other financial assets</b>									
Cash	4.5.4	n/a	—	—	—	396.8	396.8	396.8	—
<b>Total financial assets</b>			22.5	0.8	31.2	484.1	538.6	420.4	118.2
<b>Financial liabilities</b>									
Private placement loan notes	a	n/a	—	—	—	285.5	285.5	74.6	210.9
Other finance		n/a	—	—	—	0.7	0.7	0.7	—
Non-designated foreign exchange forwards and swaps		Level-2	0.1	—	—	—	0.1	0.1	—
Cross-currency interest rate swaps	a	Level-2	—	—	1.0	—	1.0	—	1.0
Deferred consideration payable		n/a	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	c	Level-3	—	9.2	—	—	9.2	9.2	—
			0.1	9.2	1.0	286.9	297.2	84.6	212.6
<b>Other financial liabilities</b>									
Overdrafts	4.5.4	n/a	—	—	—	219.6	219.6	219.6	—
Lease liabilities	4.4.1	n/a	—	—	—	397.5	397.5	55.6	341.9
<b>Total financial liabilities</b>			0.1	9.2	1.0	904.0	914.3	359.8	554.5

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.5 Financial instruments and the fair value hierarchy *continued*

The following table shows the movement from the opening balances to the closing balances for Level-3 fair values.

	Put options of non-controlling interests £m	Investments FVPL and FVOCI £m
At 1 January 2022	8.6	9.2
Change in put-options recognised in other comprehensive income	0.6	—
Additions	—	2.3
Reclassification from other investment categories	—	0.4
Gain in fair value recognised in income statement	—	5.9
Gain in fair value recognised in other comprehensive income	—	0.2
At 31 December 2022	9.2	18.0
Change in put-options recognised in other comprehensive income	(0.7)	—
Disposals	—	(0.3)
Loss in fair value recognised in other comprehensive income	—	(0.1)
<b>At 31 December 2023</b>	<b>8.5</b>	<b>17.6</b>

#### 4.5.3 Borrowings

Details of the Group's current RCF facility are shown in the above liquidity section (see note 4.5.2b).

Borrowing costs of £5.4m were capitalised in the year (2022: £5.2m). At 31 December 2023, the Group's private placement loan note series had a GBP equivalent underlying carrying value of £250.2m (2022: £260.5m) (see note 4.5.2a) analysed as follows:

Maturity	Denomination	Interest rate %	Nominal value Ccy/m
22 January 2025	GBP	3.540	7.4
22 April 2025	GBP	3.670	22.3
25 July 2026	GBP	9.350	50.0
27 October 2026	GBP	2.770	18.6
22 January 2027	GBP	3.580	23.8
<b>Total GBP denominated</b>	<b>GBP</b>		<b>122.1</b>
22 January 2025	USD	3.650	74.3
25 July 2026	USD	8.000	45.0
27 October 2026	USD	3.590	19.3
22 January 2027	USD	3.800	27.5
25 July 2028	USD	8.210	23.0
<b>Total USD denominated<sup>1</sup></b>	<b>USD</b>		<b>189.1</b>

1. USD denominated loan notes have a GBP equivalent underlying carrying value of £131.1m. The Group has entered into a combination of cross currency and interest rate swaps to achieve a GBP fixed rate of interest. Further disclosure on the Group's use of hedges is included in note 4.2.

#### 4.5.4 Cash, cash equivalents and overdrafts

The Group has a notional cash pool with its bank under which the bank is able to net overdrafts against cash balances held by other Group companies within the same notional pool. The overdraft balances shown below are fully offset by cash balances within the same notional pool. Since the pool is notional, the Group's gross cash and overdraft position is presented below:

	2023 £m	2022 £m
Cash and cash equivalents	155.4	396.8
Overdrafts	(95.0)	(219.6)
	60.4	177.2
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale	7.2	—
<b>Total cash, cash equivalents and overdrafts</b>	<b>67.6</b>	<b>177.2</b>

Of total cash, cash equivalents and overdrafts, £46.0m (2022: £60.4m) is restricted cash, which includes cash required to be held under FCA regulations, cash held in foreign bank accounts, and cash represented by non-controlling interests.

## I Notes to the consolidated financial statements *continued*

### Section 4: Capital structure and financing costs *continued*

#### 4.6 Issued share capital

<b>Allotted, called up and fully paid</b>	<b>2023 No m</b>	<b>2022 No m</b>	<b>2023 £m</b>	<b>2022 £m</b>
Ordinary shares of 2 1/15p each				
At 1 January	<b>1,684.1</b>	1,684.1	<b>34.8</b>	34.8
Issue of share capital	<b>17.0</b>	—	<b>0.4</b>	—
At 31 December	<b>1,701.1</b>	1,684.1	<b>35.2</b>	34.8

<b>Share premium</b>	<b>2023 £m</b>	<b>2022 £m</b>
Ordinary shares of 2 1/15p each		
At 1 January	<b>1,145.5</b>	1,145.5
At 31 December	<b>1,145.5</b>	1,145.5

<b>Employee benefit trust shares</b>	<b>2023 No m</b>	<b>2022 No m</b>	<b>2023 £m</b>	<b>2022 £m</b>
Ordinary shares of 2 1/15p				
At 1 January	<b>9.3</b>	18.1	<b>(4.2)</b>	(8.0)
Shares purchased	<b>17.0</b>	—	<b>(0.4)</b>	—
Issued on exercise of share options	<b>(9.5)</b>	(8.8)	<b>3.9</b>	3.8
At 31 December	<b>16.8</b>	9.3	<b>(0.7)</b>	(4.2)

The Group will use shares held in the Employee Benefit Trust (EBT) shares to satisfy future requirements for shares under the Group's share option and long-term incentive plans. On 2 June 2023, 17m ordinary 2 1/15 pence shares (2022: nil) were allotted to the EBT for an aggregate nominal value of £351,332 to satisfy exercises under the Group's share plans. The total consideration received in respect of these shares was £351,332. During the year, 9,496,440 (2022: 8,770,217) shares with a value of £3.9m (2022: £3.8m) were transferred out of the EBT to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (2022: £nil).

The Group has an unexpired authority to repurchase up to 9.9% of its issued share capital.

#### 4.7 Group composition and non-controlling interests

The Group's subsidiaries are listed in notes 7.3.3 and 7.3.16 of the Parent Company financial statements on pages 221, 222 and 225 to 228.

The Group holds a majority of the voting rights in all of its subsidiaries and the directors have determined that, other than the entity commented on below, in each case the Group exercises de facto control.

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Limited (DCC), a wholly-owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group reassesses whether it has control over DCC as required under IFRS 10 *Consolidated Financial Statements*. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited (given the restrictions in the licence). That power is held by the board of DCC where the Group has minority representation in compliance with the licence. Consequently, the Group has not consolidated DCC in its Group financial statements. The disclosure of related party transactions with DCC is included in note 6.1.

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits

This section details employee related items that are not explained elsewhere in the financial statements.

5.1 Share-based payment plans

5.2 Pensions

5.3 Employee benefit expense

**AP** Denotes accounting policies

**J** Denotes significant accounting judgements

**E** Denotes significant accounting estimates and assumptions

#### Key highlights

**Additional funding into the defined benefit schemes**

**£46.3m**

(2022: £38.6m)

**Net defined benefit pension accounting surplus**

**£26.8m**

(2022: surplus £39.6m)

**Employee benefit expense**

**£1,636.5m**

(2022: £1,758.1m)

	2023 £m	2022 £m	Movement £m
Net defined benefit pension asset			
Defined benefit obligation	<b>(1,178.3)</b>	(1,136.1)	(42.2)
Fair value of plan assets	<b>1,205.1</b>	1,175.7	29.4
<b>Net defined pension asset after effect of asset ceiling limit</b>	<b>26.8</b>	39.6	(12.8)

The net defined benefit pension position on an accounting basis remained a net asset but reduced slightly by 31 December 2023.

The main reasons for the movement in the net defined benefit pension position are (i) the decrease in the yields available on corporate bonds (used to value the pension obligation); (ii) assets returning less than expected over the period; and (iii) these were partially offset by the deficit funding contributions (£46.3m) paid into the Group's main defined benefit scheme (HPS) (formerly known as CPLAS) (plus £0.5m deficit funding contribution in respect of other schemes). The schemes are highly sensitive to the change in discount rates (with a 0.5% pa change resulting in an approximate £89.8m impact) and change in future inflation expectations (with a 0.5% pa change resulting in an approximate £48.1m impact).

The valuation of liabilities for funding purposes differs from the valuation for accounting purposes due to the different requirements. Management estimate that at 31 December 2023 the surplus of the HPS scheme was around £81m on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2023), compared to a surplus of £29m on an accounting basis.

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.1 Share-based payment plans

The Group operates a number of executive and employee equity-settled share schemes.

##### **AP** Accounting policies

The fair value of the equity instrument granted under these schemes is measured at grant date and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model, only taking into account vesting conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest as a result of not meeting performance or service conditions. Where all service and performance vesting conditions have been met, the awards are treated as vesting, irrespective of whether or not the market condition is satisfied, since market conditions were reflected in the fair value of the equity instruments.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the consolidated income statement, with a corresponding adjustment to equity.

Where the terms of an award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period adjusted for the incremental fair value of any modification ie the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the consolidated income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the consolidated income statement.

The expense recognised for share-based payments (before tax) in respect of employee services received during the year to 31 December 2023 was £5.5m (2022: £5.4m), all of which arises from equity-settled share based payment transactions. Details of the schemes are as follows:

##### **Deferred annual bonus plan**

This scheme is applicable to executive directors. Under this scheme, awards are made annually consisting of only deferred shares, which are linked to the payout under the annual bonus scheme (details of which are contained in the directors' remuneration report on page 96 to 118).

The value of deferred shares is determined by the pay-out under the annual bonus scheme: half of the annual bonus is paid in cash and the remainder is deferred into shares under the deferred annual bonus plan or the Capita executive plan. Directors have the option to defer up to 100% of their annual bonus into deferred shares or net bonus into a restricted share award. The deferred/restricted shares are held for a period of three years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

The weighted average share price of options at the date of exercise in 2023 was £0.33 (2022: £0.22). The weighted average share price during the year was £0.26 (2022: £0.26).

The total cash value of the deferred shares awarded during the year was £0.7m (2022: £0.2m).

##### **Long-term incentive plans (LTIPs)**

The structure of the Group's LTIP schemes was approved at the Company's Annual General Meeting (AGM) in 2017. From 2021, no new awards will be granted under the LTIP with the final awards under the scheme (the 2020 grant) having vested in April 2023.

The 2020 award was split into three equal tranches that vested on the first, second and third anniversary of the grant date. The first tranche in 2020 was subject to a retention element which would vest in full on each annual vesting date, with the remaining 50% subject to a performance condition of net debt. Threshold vesting (25%) was dependent on net debt falling to £872m, target vesting (50%) was dependent on net debt falling to £822m and maximum vesting (100%) was dependent on net debt being below £772m. Tranches 2 and 3 were subject to the retention element only apart from the CEO's award which was subject to relative Total Shareholder Return (TSR) and responsible business scorecard measures.

Details of the 2020 LTIP award outturn and vesting levels for executive directors are set out in the 2022 directors' remuneration report, on page 115 of the 2022 Annual Report.

All of the above awards are subject to a performance underpin assessment of the underlying financial and operational performance of Capita over the performance period.

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.1 Share-based payment plans *continued*

##### Capita Executive Plan 2021

The Capita Executive Plan was approved by shareholders at the 2021 AGM. Under this plan, restricted share awards (RSAs) are granted to executives.

With the exception of the executive directors, RSAs granted in 2021, 2022 and 2023 are split into three equal tranches that vest on the first, second and third anniversary of the grant date. The awards are not subject to specific performance conditions, however there is a general underpin regarding Remuneration Committee satisfaction with underlying financial and operational performance of Capita over the performance period.

Details of the Capita Executive Plan RSAs made to executive directors and the associated underpins are set out in the directors' remuneration report, on page 111.

	2023 Ne m	2022 Ne m
Outstanding at 1 January	41.7	46.4
Awarded during the year	16.6	28.5
Exercised	(9.5)	(8.8)
Lapses	(7.6)	(24.4)
Outstanding at 31 December	41.2	41.7
Exercisable at 31 December	—	—

The weighted average remaining contractual life of the above shares outstanding at 31 December 2023 was 1.1 years (2022: 1.3 years).

##### All schemes

The fair value of the options granted/awarded during the year was £0.38 per share (2022: £0.22 per share). None of the existing option schemes have exercise prices.

The fair value for current share scheme issues is effectively the market price of a Capita share at the date of grant. Accordingly, no assumptions have been disclosed.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

#### 5.2 Pensions

##### AP Accounting policies

##### Defined contribution pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the consolidated income statement when the related service is provided and as they fall due.

##### Defined benefit pension schemes

In addition, the Group operates two defined benefit pension schemes and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the consolidated income statement.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain/loss recognised in the consolidated income statement during the period in which the settlement or curtailment occurs.

Remeasurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and will not be reclassified to the consolidated income statement. The Group generally determines the net interest expense/income on the net defined benefit asset/liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the year as a result of contributions and benefit payments. However, due consideration is given to events which require the net interest expense/income on the net defined benefit asset/liability to be remeasured over the course of the year.

Current and past service costs are charged to operating profit while the net interest cost is included within net finance costs.

The net asset/(liability) in the consolidated balance sheet with respect to the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of assets out of which the obligations are to be settled directly. The policy to determine fair value of assets is detailed in the note below. Where applicable the value of a net pension benefit asset is restricted to the present value of any amount the Group expects to recover by way of refunds or reductions in the future contributions.

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.2 Pensions continued

##### **E** Significant accounting estimates and assumptions

Measurement of defined benefit obligations – the accounting cost of these benefits and the present value of pension liabilities involve judgements about uncertain events including such factors as the life expectancy of members, the salary progression of current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. The Group uses estimates for all of these factors in determining the pension costs and liabilities incorporated in the consolidated financial statements. The assumptions reflect historical experience and judgement regarding future expectations.

The Group continued to set Retail Price Inflation (RPI) in accordance with the market break-even expectations less an inflation risk premium, which has remained at 0.25% pa. For Consumer Price Inflation (CPI), the Group reduced the assumed difference between RPI and CPI to an average of 0.60% pa.

Short-term inflation expectations continued to remain high due to the global economic recovery from the initial phase of Covid-19, combined with supply constraints in certain sectors such as energy. Current inflation levels continue to be higher than recent norms. This will have an impact on pension increases that are linked to inflation and this impact, where applicable, has been reflected in the disclosures. It should be noted that a material proportion of pension increases are capped (at different levels, but the main cap is 5.0% pa) with some caps applying annually and others applying over a period of years.

The impact of Covid-19 on the effects of future life expectancy continues to be uncertain. The pandemic is likely to have an impact on the setting of appropriate life expectancy assumptions and models for future improvements will need to consider whether the experiences since 2020 are a short-term phenomenon, and if the pandemic will influence future mortality in other ways. For example, the pressure on health services may mean that progress against other causes of death such as cancer is slower than previously expected, meaning an assumption of a lower rate of mortality improvements might be appropriate. Alternatively, the surviving population may be in better health than those dying from Covid-19, meaning that it might be expected that the remaining members live slightly longer. In June 2023, the Continuous Mortality Investigation (CMI) published a new model (CMI 2022) that includes population experience up to 2022. This latest version of the model could be heavily impacted by Covid-19 with the core version of the model placing a 25% weighting on 2022 experienced data and a 0% weighting on both 2020 and 2021 experienced data. The core version of the model reflects the fact that 2022 excess deaths remain higher than pre-Covid levels.

The Group is aware of the 2023 high court case that considered the validity of deeds where no Section 37 certificate (confirming that the minimum level of benefits had not been breached) was attached to the deed; and further understands that the case is being appealed with judgement expected in 2024. The HPS Trustee Board has received legal advice regarding this matter, which is to await the outcome of the appeal and any Government intervention prior to assessing what, if any, impact there might be on the scheme. The Group considers this approach reasonable and appropriate.

#### Pension expense included in the consolidated income statement

	2023 £m	2022 £m
<b>Defined contribution scheme</b>	<b>51.7</b>	55.2
<b>Defined benefit schemes</b>		
Current service cost	2.5	4.4
Administration costs	4.4	3.9
Past service cost	0.6	0.6
Termination benefits	0.2	—
Effect of settlements	—	0.1
Interest cost	(2.7)	(3.6)
<b>Total defined benefit schemes</b>	<b>5.0</b>	5.4
<b>Total charged to profit before tax in the consolidated income statement</b>	<b>56.7</b>	60.6

At 31 December 2023, retirement obligations were disclosed in relation to eight (2022: nine) defined benefit pension schemes.

##### **The Group's main defined benefit scheme (HPS)**

The Group's main defined benefit scheme closed to future accrual for most members in 2017 (with around 175 members continuing to accrue benefits – out of a total membership of around 16,500 members). Details of the HPS and other schemes net surplus/(deficit) position are given at the bottom of the table below which shows the movements from the opening to the closing balance of the net defined benefit asset/(liability). Events occurred in the HPS that have led to its income statement being remeasured during the year.

Responsibility for the operation and governance of the HPS lies with a corporate Trustee which is independent of the Group. The Trustee Board is required by law to act in the interest of the HPS's beneficiaries in accordance with the rules of the HPS and relevant legislation (which includes the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004). The nature of the relationship between the Group and the Trustee Board is also governed by the rules of the HPS and relevant legislation. The Trustee Board is chaired by an independent Trustee.

The assets of the HPS are held in a separate fund (administered by the Trustee Board) to meet long-term pension liabilities to beneficiaries. The Trustee Board invest the assets in accordance with its Statement of Investment Principles, which is regularly reviewed. The Trustee Board has delegated its investment strategy decisions to a fiduciary manager, however, the Trustee Board maintains overall oversight of the investment strategy.

A full actuarial valuation of the scheme is carried out every three years by an independent actuary for the Trustee Board, with the last full actuarial valuation carried out at 31 March 2023. The purpose of that valuation is to design a funding plan to ensure that the HPS has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and the Group. The 31 March 2023 actuarial valuation showed a funding surplus of £51.4m (31 March 2020: £182.2m deficit). This equates to a funding level of 105% (31 March 2020: 89%).

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.2 Pensions continued

Given the funding position of the HPS, the Group and the Trustee Board agreed that no further deficit recovery contributions from the Group are required other than those already committed<sup>1</sup> as part of the 31 March 2020 actuarial valuation. In accordance with the schedule of contributions put in place following the 31 March 2020 actuarial valuation, the Group has paid £30m of regular deficit contributions during 2023 and £16.3m of accelerated deficit funding contributions and other contributions triggered by the disposal of certain businesses in the second half of 2022 and 2023. The Group will pay a further £21m of contributions in 2024, with no further deficit contributions in 2025 and beyond.

The next full actuarial valuation is due to be carried out with an effective date of 31 March 2026 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended. For the purpose of these accounts, an independent qualified actuary projected the results of the 31 March 2023 actuarial valuation to 31 December 2023 taking account of the relevant accounting requirements.

Approximate funding updates are produced at each scheme anniversary when a full actuarial valuation is not being undertaken. The next funding update is scheduled to be as at 31 March 2024.

The valuation of liabilities for funding purposes (the actuarial valuation) differs from the valuation for accounting purposes (which is shown in these financial statements) due to different assumptions used and different market conditions at the different valuation dates (the effective date for the actuarial valuation of the HPS is 31 March). The assumptions used for funding purposes are scheme specific and allow for an appropriate amount of prudence, with the discount rate being based on the actual assets of the pension scheme. While for accounting purposes the assumptions are determined on a best estimate basis in accordance with IAS 19 *Employee Benefits*, with the discount rate being based on the yields available on high quality corporate bonds of appropriate currencies and terms. Management estimate that at 31 December 2023 the net assets of the HPS scheme were around £50m higher on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2023) than on an accounting basis.

The Group contributed £52.5m to the HPS during 2023. This includes the ongoing cost of benefit accrual, contributions towards running the pension scheme, deficit contribution (including those accelerated on a pound for pound basis due to disposal proceeds being used to fund mandatory prepayments of debt) and other contributions as a result of disposal activities.

In addition, during 2023, the £5.0m held in escrow was released to HPS.

#### Other defined benefit schemes

The total employer contributions to the 'Other' schemes during 2023 were £3m.

##### Other UK schemes

- Three segregated sections in an industry-wide scheme under which defined benefits are not continuing to accrue. The latest full actuarial valuations (at 31 December 2021) showed that one of these sections was in surplus and therefore no deficit contributions were required. One section showed a small deficit resulting in the Group being required to pay £28,000 during 2025. The third section showed a deficit of £3.45m resulting in the Group being required to pay £0.8m pa until 2026. The next actuarial valuations are due as at 31 December 2024 and as part of those valuations the contribution requirements will be reviewed, and if necessary, amended. There is no cross subsidy with other employer sections.
- Participation in a non-associated multi-employer scheme under which defined benefits are not continuing to accrue. The latest full actuarial valuation (at 30 September 2020) resulted in the Group being required to pay deficit contributions of initially £0.4m pa (which increase by 5.5% pa) until 2028. The next full actuarial valuation is being carried out with an effective date of 30 September 2023 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended. If the Group were to cease to be a participating employer in this scheme there would be an exit debt payable. At 30 September 2022, this was estimated at £6.0m.

##### Overseas defined benefit schemes

The Group is responsible for an Irish defined benefit scheme which is classed as a cross-border scheme where the beneficiaries of the scheme have their liabilities, and the trustees hold assets, denominated in euro. The scheme is governed under UK regulations and subject to further requirements applying to cross-border schemes. There are two segregated sections in the scheme. The latest full actuarial valuation (at 31 March 2023) showed a funding surplus for both the main section and the other section, and consequently, no deficit contributions are required for either section. There are no members left accruing benefits.

The Group is also responsible for two Swiss schemes that provide defined contribution benefits but with certain guarantees (and are therefore reported as defined benefit schemes under IAS 19). They are administered and governed through collective foundations which are separate legal entities. Benefits are continuing to accrue in these schemes.

##### Additional defined benefit schemes

There are a further 36 (2022: 46) defined benefit pension arrangements in which various Capita businesses participated during 2023. Of these arrangements 32 (2022: 41) relate to participation in funded and unfunded public sector schemes (referred to as Admitted Body Arrangements), however, contractual protections are in place allowing actuarial and investment risk to be passed to the end customer via recoveries for contributions paid. The nature of these arrangements vary from contract to contract but typically allow for the majority of contributions payable to the schemes in excess of an initial rate agreed at the inception to be recovered from the end customer, as well as exit payments (for funded schemes) payable to the schemes at the cessation of the contract, such that the Group's net exposure to actuarial and investment risk is immaterial.

Approximately £10m of employer contributions were paid into these 36 schemes during 2023.

1. These include additional, non-statutory, contributions to meet a secondary funding target with the objective of having sufficient assets to invest in a portfolio of low-risk assets with a low dependency covenant that will generate income to pay members' benefits as they fall due.

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.2 Pensions *continued*

##### Risks associated with the Group's pension schemes

The defined benefit pension schemes expose the Group to various risks, with the key risks set out below:

**Investment risk:** the schemes invest in a wide range of assets with a view to provide long-term investment returns at particular levels. There is a risk that investment returns are lower than expected which, in isolation, could result in a worsening of the funding position of the schemes.

**Interest rate risk:** the IAS 19 discount rate is derived based on the yields available on good quality corporate bonds of suitable duration. If these yields decrease then, in isolation, this would increase the value placed on the IAS 19 obligation and result in a worsening of the funding position of the schemes.

**Inflation risk:** the liabilities of the schemes are linked to future levels of inflation. If future inflation is higher than expected then this would result in the cost of providing the benefits increasing and thereby worsening the funding position of the schemes.

**Longevity risk:** if members live longer than expected, then pensions will be paid for a longer time which will increase the value placed on the liabilities and therefore worsen the funding position of the schemes.

**Environmental Social and Governance (ESG) risk:** ESG risk relates to these issues having a detrimental impact on financial returns. The fiduciary manager has policies in place to reduce this risk, although there is a higher risk in older externally held assets.

To manage these risks, the Group and the trustees carry out regular assessments of them. For HPS, the main defined benefit scheme, the following actions have been taken:

- The HPS Trustee Board has entered into two bulk annuity contracts with an insurer in respect of a small number of high individual liability pensioner members with total value included in the assets at 31 December 2023 of £47.0m (2022: £50.1m).
- The HPS Trustee Board has entered into a Liability Driven Investment programme. The level of risk that is managed by this programme is set by various market-related and funding trigger points.

Together, these actions have led to the Trustee Board hedging (interest rate and inflation) a high proportion of the HPS's liabilities. At 31 December 2023 HPS's liabilities measured on the Trustee Board's long-term funding basis were broadly fully hedged.

The hedging aims to match the value of the assets to the movement in liabilities (on a funding basis) arising from changes in market expectations of future inflation rates and future gilt yields. This is to help protect and reduce volatility in funding valuations which are used to determine the cash contribution requirements to the scheme. Since these accounting disclosures use the yields available on corporate bonds to determine the accounting liabilities, the hedging may not have the same impact for accounting purposes as they do for a funding valuation. Credit spreads (the difference between the yields available on long-dated corporate bonds and long-dated government bonds) narrowed during the year meaning that the hedge had a different impact on the funding position of the scheme and the accounting disclosures at the year-ends (the funding position on the accounting basis worsened slightly while the funding position on the funding basis improved slightly).

To illustrate how sensitive the value of the defined benefit obligations is to different market conditions, the table below shows what the resulting defined benefit obligation would be if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2023 actuarial assumptions	Group total £m
Base defined benefit obligation	<b>1,178.3</b>
0.5% pa decrease in discount rate	<b>1,268.1</b>
0.5% pa increase in salary increases	<b>1,179.7</b>
0.5% pa increase in inflation (and related assumption, eg salary and pension increases)	<b>1,226.4</b>
1 year increase in life expectancy	<b>1,213.0</b>

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.2 Pensions *continued*

##### Assets and liabilities

Under IAS 19, pension scheme assets must be valued at their fair value at the balance sheet date. The scheme assets are made up of quoted and unquoted investments, and asset valuations have been sourced from the respective scheme's investment managers and custodians, based on their pricing sources and methodologies. Unquoted investments require more judgement because their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions which could result in changes in fair value after the measurement date.

For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit and market risks and market yield curves.
- Properties are valued on the basis of an open market value or are valued using models based on discounted cash flow techniques.
- Assets in investment funds are valued at fair value which is typically the net asset value provided by the investment manager.
- Certain unlisted investments are valued using a model based valuation such as discounted cash flow.
- The value of bulk annuity contracts has been assessed by discounting the projected cash flows payable under the contracts (projected by an actuary, consistent with the terms of the contract) and is equal to the corresponding liability calculated by reference to the IAS 19 assumptions.

The assets and liabilities of all of the defined benefit pension schemes (excluding additional voluntary contributions) at 31 December are:

	2023			2022			Group total
	Quoted £m	Unquoted* £m	Total £m	Quoted £m	Unquoted* £m	Total £m	Total £m
<b>Scheme assets at fair value:</b>							
Equities:							
– UK	0.1	3.0	3.1	0.2	2.5	2.7	
– Overseas	1.5	34.3	35.8	2.0	24.8	26.8	
– Private	0.1	—	0.1	0.2	—	0.2	
	1.7	37.3	39.0	2.4	27.3	29.7	

	2023			2022		
	Quoted £m	Unquoted* £m	Total £m	Quoted £m	Unquoted* £m	Total £m
<b>Debt securities:</b>						
– UK Government	538.5	1.2	539.7	482.0	—	482.0
– UK Corporate	0.1	45.7	45.8	0.4	11.6	12.0
– Overseas Government	9.8	11.9	21.7	10.1	11.4	21.5
– Overseas Corporate	0.3	211.7	212.0	0.9	101.0	101.9
– Emerging Markets	0.4	2.7	3.1	0.5	27.3	27.8
– Private Debt	—	110.5	110.5	—	134.5	134.5
– Secured Loans	—	—	—	—	39.8	39.8
	549.1	383.7	932.8	493.9	325.6	819.5
Property	2.2	45.8	48.0	2.6	88.2	90.8
Infrastructure	1.0	—	1.0	1.5	—	1.5
Credit Funds	1.6	—	1.6	2.7	—	2.7
Hedge Funds	—	1.1	1.1	—	2.1	2.1
Absolute Return Funds	0.2	—	0.2	0.1	—	0.1
Insurance Contracts	—	69.7	69.7	—	71.4	71.4
Cash	81.3	20.4	101.7	34.3	133.2	167.5
Other	4.4	5.6	10.0	(8.5)	(1.1)	(9.6)
	90.7	142.6	233.3	32.7	293.8	326.5
<b>Total</b>	<b>641.5</b>	<b>563.6</b>	<b>1,205.1</b>	529.0	646.7	1,175.7
Present value of scheme liabilities (before effect of asset ceiling limit)			(1,178.3)			(1,136.0)
Net surplus (before effect of asset ceiling limit)			26.8			39.7
Effect of asset ceiling limit			—			(0.1)
Present value of scheme liabilities (after effect of asset ceiling limit)			(1,178.3)			(1,136.1)
Net surplus (after effect of asset ceiling limit)			26.8			39.6

\* Some investments are in funds which are in themselves not traded in active markets.

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.2 Pensions *continued*

The HPS Trustee Board invests in Liability Driven Investments (LDIs) as part of a risk hedging strategy. The aim of the strategy is to match the value of the assets to the movement in liabilities (on a funding basis) arising from changes in market expectations of future inflation rates and future gilt yields. To achieve this, LDIs invest in a variety of instruments including gilts, synthetic gilts (combination of repurchase agreement, reverse repurchase agreements and total return swaps) and cash. In the table above, the LDI at 31 December 2023 (approximately £546.3m) has been mapped as 95.4% Quoted UK Government Bonds, 1.5% Quoted Overseas Government Bonds, 2.3% Quoted Cash and 0.8% Quoted Other.

The assets do not include any directly owned financial instruments issued by the Group.

Within the Private Debt allocation above, approximately £79.0m relates to adjusted lagged valuations at 31 December 2023. In arriving at this figure, allowance has been made for broad market movements and distributions between 30 September 2023 (the most recent valuation of these assets) and 31 December 2023.

In accordance with the HPS Trustee Board's focus on financially material considerations, it is acknowledged that Environment, Social and Governance (ESG) factors can impact security prices. The HPS Trustee Board has discussed their views on ESG factors, and considered the Group's perspective, and developed responsible investment beliefs. These can be found in the HPS's Statement of Investment Principles (on its website at <https://www.horizonpensionscheme.com/library>).

#### IFRIC 14

The Group has considered the impact of IFRIC 14 IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* on the various schemes (in relation to either recognising a surplus or allowing for the impact of any funding commitments made) and has concluded, based on its interpretation of the rules for each of the schemes, that IFRIC 14 would not affect the balance sheet position at this reporting date for any of the schemes. For clarity the HPS, the Group's main defined benefit scheme, IFRIC 14 would not limit the surplus or increase the deficits shown at the reporting date because the Group has an unconditional right to a refund assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme.

#### Reconciliation of retirement benefits

Explanation of constituents of the consolidated income statement.

The cost of providing the retirement benefits during the year is broken down as follows, with due consideration being made for events which require the income statement to be re-measured over the course of the year:

- Service cost is the cost to the Group of future benefits earned by contributing members over the current financial period.
- Past service cost represents the change in the present value of scheme liabilities in the current period in relation to prior years' service.
- Administration costs are those entailed by the pension schemes over the current period.
- Interest expense/(income) is made up of the interest on pension liabilities and assets over the current period generally based on the discount rate adopted at the start of the period. An allowance for interest on the asset ceiling is recognised where applicable as at 31 December 2023 and 31 December 2022.
- Termination benefits are employee benefits payable as a result of either: (a) the Group's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.2 Pensions *continued*

All schemes are partly or wholly funded, and the following table shows the components of the movements from the opening to the closing balances for the net defined benefit asset:

	Group total					
	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
At 1 January	(1,136.1)	(1,791.5)	1,175.7	1,797.3	39.6	5.8
<b>Included in the consolidated income statement:</b>						
Current service cost	(2.5)	(4.4)	—	—	(2.5)	(4.4)
Administration costs	(4.4)	(3.9)	—	—	(4.4)	(3.9)
Past service cost	(0.6)	(0.6)	—	—	(0.6)	(0.6)
Termination benefits	(0.2)	—	—	—	(0.2)	—
Effect of settlements	—	0.1	—	(0.2)	—	(0.1)
Interest income/(expense)*	(53.4)	(44.0)	56.1	47.6	2.7	3.6
<b>Sub-total in consolidated income statement</b>	<b>(61.1)</b>	<b>(52.8)</b>	<b>56.1</b>	<b>47.4</b>	<b>(5.0)</b>	<b>(5.4)</b>
<b>Included in other comprehensive income:</b>						
Actuarial gain/(loss) arising from:						
– demographic assumptions	6.9	6.8	—	—	6.9	6.8
– financial assumptions	(28.5)	706.1	—	—	(28.5)	706.1
– experience adjustments	(6.9)	(50.4)	—	—	(6.9)	(50.4)
– changes in asset ceiling/ minimum liability	—	2.3	—	—	—	2.3
Return on plan assets excluding interest	—	—	(39.7)	(673.7)	(39.7)	(673.7)
<b>Sub-total in other comprehensive income</b>	<b>(28.5)</b>	<b>664.8</b>	<b>(39.7)</b>	<b>(673.7)</b>	<b>(68.2)</b>	<b>(8.9)</b>
Employer contributions	—	(0.2)	60.5	48.7	60.5	48.5
Contributions by employees	(2.1)	(1.7)	2.1	1.7	—	—
Benefits paid	50.4	47.8	(50.4)	(47.8)	—	—
Exchange movement - recognised in other comprehensive income	(0.9)	(2.5)	0.8	2.1	(0.1)	(0.4)
<b>At 31 December</b>	<b>(1,178.3)</b>	<b>(1,136.1)</b>	<b>1,205.1</b>	<b>1,175.7</b>	<b>26.8</b>	<b>39.6</b>

	Group total					
	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Schemes in a net surplus						
HPS	(1,125.0)	(1,087.0)	1,154.4	1,126.3	29.4	39.3
Other schemes	(15.8)	(15.2)	19.1	18.6	3.3	3.4
	(1,140.8)	(1,102.2)	1,173.5	1,144.9	32.7	42.7
Schemes in a net deficit						
Other schemes	(37.5)	(33.9)	31.6	30.8	(5.9)	(3.1)
	(37.5)	(33.9)	31.6	30.8	(5.9)	(3.1)
<b>At 31 December</b>	<b>(1,178.3)</b>	<b>(1,136.1)</b>	<b>1,205.1</b>	<b>1,175.7</b>	<b>26.8</b>	<b>39.6</b>

\* Includes impact of asset ceiling on net interest of £nil in 2023 (2022: £0.1m).

Of the total pension cost of £5.0m (2022: £5.4m), £3.3m (2022: £5.1m) was included in cost of sales, £4.4m (2022: £3.9m) was included in administrative expenses, and £2.7m of net interest income (2022: £3.6m of net interest income) was included in net finance costs.

#### Breakdown of liabilities for the HPS

Information about the defined benefit obligation for the HPS:

	Proportion of overall liability %		Duration (years)	
	2023	2022	2023	2022
	2023	2022	2023	2022
Active members	5	17.1	6	16.9
Deferred members	54	18.3	59	18.0
Pensioners	41	10.8	35	10.6
<b>Total percentage / average duration</b>	<b>100</b>	<b>15.1</b>	<b>100</b>	<b>15.5</b>

Duration is a weighted average of when benefits are expected to be paid from a pension scheme. It is sensitive to the interest rate used to calculate it. The increase in yields in recent years has acted to reduce the duration of the HPS (because less weight is placed on the pension cash flows stretching far out into the future).

## I Notes to the consolidated financial statements *continued*

### Section 5: Employee benefits *continued*

#### 5.2 Pensions continued

##### Financial and demographic assumptions

Main assumptions <sup>1</sup> :	2023 %	2022 %
Rate of price inflation – RPI	<b>3.05</b>	3.15
Rate of price inflation – CPI	<b>2.45</b>	2.50
Rate of salary increase	<b>3.05</b>	3.15
Rate of increase of pensions in payment <sup>2</sup> :		
– RPI inflation capped at 5% per annum	<b>3.00</b>	3.05
– RPI inflation capped at 2.5% per annum	<b>2.15</b>	2.15
– CPI inflation capped at 5% per annum	<b>2.45</b>	2.50
Discount rate	<b>4.55</b>	4.75
Expected take up maximum available tax free cash	<b>85.00</b>	85.00

1. Different assumptions apply to non-UK schemes, for example: the discount rate for the Irish Schemes is 3.7% pa, and for the Swiss schemes it is 1.5% pa in 2023.

2. There are other levels of pension increase which apply to particular periods of membership.

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2023 and 31 December 2022 are as follows:

	Member currently aged 65 (current life expectancy)			
	Male		Female	
	2023	2022	2023	2022
HPS <sup>1</sup>	<b>21.9</b>	22.4	<b>23.9</b>	24.3
Other Schemes	<b>21.0 to 22.9</b>	21.1 to 22.7	<b>23.4 to 24.6</b>	23.7 to 24.5

	Member currently aged 45 (life expectancy at 65)			
	Male		Female	
	2023	2022	2023	2022
HPS <sup>1</sup>	<b>22.6</b>	22.3	<b>25.2</b>	25.2
Other Schemes	<b>22.2 to 25.1</b>	22.3 to 25.0	<b>24.9 to 26.6</b>	25.2 to 26.5

1. The assumptions used for the HPS are tailored for each member. The assumptions adopted make allowance for an increase in the longevity in the future (CMI 2022 core model Sk=7.0) with a long-term rate of improvement of 1.25% pa, an 'A' parameter of 0.25% for both males and females and no weighting applied to 2020 and 2021 data, 25% weighting on 2022 data). The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years' time is derived from non-pensioner membership.

#### 5.3 Employee benefit expense

	Notes	2023 £m	2022 £m
Wages and salaries		<b>1,431.0</b>	1,536.1
Social security costs		<b>140.6</b>	152.4
Pension costs		<b>59.4</b>	64.2
Share-based payments	5.1	<b>5.5</b>	5.4
		<b>1,636.5</b>	1,758.1

During 2021, the Group furloughed employees unable to work as a result of the Covid-19 pandemic, and applied to the Coronavirus Job Retention Scheme (CJRS) operated by the UK Government. Amounts received under CJRS were treated as a government grant. In May 2022, the Group announced its intention to repay the amounts received in 2021 under CJRS at the end of the Group's publicly stated disposal programme and no later than the end of June 2023, accordingly £4.9m was accrued in 2022 and repaid in June 2023.

The aggregate amount of directors' remuneration (salary, bonus and benefits) is shown on page 109 of the directors' remuneration report.

The average number of employees during the year was made up as follows:	2023 Number	2022 Number
Sales	<b>380</b>	598
Administration	<b>2,405</b>	3,093
Operations	<b>45,104</b>	47,509
	<b>47,889</b>	51,200

## I Notes to the consolidated financial statements *continued*

### Section 6: Other supporting notes

This section includes disclosures of those items that are not explained elsewhere in the financial statements.

- 6.1 Related-party transactions
- 6.2 Contingent liabilities
- 6.3 Post balance sheet events

**AP** Denotes accounting policies

#### 6.1 Related-party transactions

##### Compensation of key management personnel

	2023 £m	2022 £m
Short-term employment benefits	7.6	7.6
Pension	0.1	—
Share-based payments	1.7	2.2
	<b>9.4</b>	9.8

Gains on share options exercised in the year by Capita plc executive directors were £nil (2022: £119,102) and by key management personnel £252,312 (2022: £396,621), totalling £252,312 (2022: £515,723).

During the year, the Group rendered administrative services to Smart DCC Limited (DCC), a wholly-owned subsidiary which is not consolidated (refer to note 4.7). The Group received £119.2m (2022: £112.0m) of revenue for these services and at the balance sheet date had receivables of £9.0m (2022: £9.2m) from DCC. The services are procured by DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by DCC.

HPS (Capita's main defined benefit pension scheme) is a related party of the Group. Transactions with the Scheme are disclosed in note 5.2.

#### 6.2 Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £22.5m (2022: £34.0m). At 31 December 2023 there was an additional guarantee of £15m in relation to the disposed Travel businesses, which has since reduced to £9.5m in January 2024. Capita plc's exposure is counter-indemnified by Clarity Travel Limited.

The Group is reviewing its position in respect of a number of its closed book Life & Pensions contracts. The outcomes and timing of this review, which are uncertain, could result in no change to the current position, the continuation of contracts with amended terms or the termination of contracts. If an operation is terminated, the Group may incur associated costs, accelerate the recognition of deferred income or the impairment of contract assets.

Following the cyber incident in March 2023 detailed in the Chief Executive Officer's Review, Capita has been working closely with all appropriate regulatory authorities and with customers, suppliers and employees to notify those affected and take any remaining necessary steps to address the incident. At the date of approval of these consolidated financial statements, we remain in dialogue with the Information Commissioner's Office (ICO) and are responding to their information requests. While we anticipate that there will be further additional requests as part of ICO's review, no formal action has been taken by the ICO in connection with the cyber incident and there have been no preliminary findings regarding fault that could lead to any potential regulatory penalty. The Group has received notification of potential claims for damages by or on behalf of individuals whose data may have been exfiltrated as part of the incident. At the date of approval of these consolidated financial statements, the Group has received no substantive claims in relation to the cyber incident. Whether any such claims will be received is uncertain, but the Group will vigorously defend any such claims and, at the date of approval of these financial statements, it is not possible to reliably estimate the potential value of any potential future claim or penalty against the Group.

The Group's entities are parties to legal actions and claims which arise in the normal course of business. The Group needs to apply judgement in determining the merit of litigation against it and the chances of a claim successfully being made. It needs to determine the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision might be required due to the probability assessment.

At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the Group's entities heightens the risk that not all potential claims are known at any point in time.

#### 6.3 Post balance sheet events

The following events occurred after 31 December 2023, and before the approval of these consolidated financial statements, but have not resulted in adjustment to the 2023 financial results:

##### Disposal of Fera

The disposal of the Group's 75% shareholding in Fera Science Limited (Fera) to a fund managed by Bridgepoint Development Capital completed on 17 January 2024.

Cash proceeds of £62m were received on completion, which included the settlement of intercompany balances owed by Fera to the Group of £0.1m. Net assets of c.£28m were disposed of on completion, alongside the derecognition of non-controlling interests of c.£9m. Total costs of disposal are estimated to be c.£9m, of which £3.5m were recognised in 2022 and 2023.

##### Contract with major European telecoms provider

In February 2024, the Group extended and expanded its contract with a major European telecoms provider. The new contract is based on expected volumes, and therefore treated as a framework contract under IFRS 15. As a result, £365m included in the Capita Experience order book at 31 December 2023 relating to the previous contract has been released. The new contract is expected to be worth up to £420m to 2030.

## I Company financial statements

### Section 7: Company financial statements

This section presents the company only financial statements for Capita plc (the Company).

- 7.1 Company balance sheet
- 7.2 Company statement of changes in equity
- 7.3 Notes to the Company financial statements

**AP** Denotes accounting policies

**J** Denotes significant accounting judgements

**E** Denotes significant accounting estimates and assumptions

#### 7.1 Company balance sheet

	Notes	2023 £m	2022 £m
<b>Non-current assets</b>			
Property, plant and equipment	7.3.2	0.6	0.8
Investments	7.3.3	996.0	994.3
Financial assets	7.3.4	14.9	20.8
Deferred tax assets	7.3.5	11.8	11.2
Amounts receivable from subsidiary companies	7.3.6	56.4	64.4
		<b>1,079.7</b>	1,091.5
<b>Current assets</b>			
Financial assets	7.3.4	1.2	15.7
Income tax receivable		—	33.6
Trade and other receivables	7.3.7	2.1	1.6
Amounts receivable from subsidiary companies	7.3.6	2,213.9	2,494.8
		<b>2,217.2</b>	2,545.7
<b>Total assets</b>		<b>3,296.9</b>	3,637.2

	Notes	2023 £m	2022 £m
<b>Current liabilities</b>			
Overdrafts		53.2	14.6
Trade and other payables	7.3.8	10.0	9.6
Amounts payable to subsidiary companies	7.3.6	1,810.4	2,302.7
Accruals and deferred income		15.6	16.6
Financial liabilities	7.3.4	1.6	0.1
Income tax payable		16.1	—
Provisions	7.3.9	4.2	4.8
		<b>1,911.1</b>	2,348.4
<b>Non-current liabilities</b>			
Trade and other payables	7.3.8	0.3	—
Borrowings	7.3.10	99.5	44.2
Financial liabilities	7.3.4	4.3	1.0
		<b>104.1</b>	45.2
<b>Total liabilities</b>		<b>2,015.2</b>	2,393.6
<b>Net assets</b>		<b>1,281.7</b>	1,243.6
<b>Capital and reserves</b>			
Issued share capital	7.3.11	35.2	34.8
Employee benefit trust shares	7.3.11	(0.7)	(4.2)
Share premium	7.3.11	1,145.5	1,145.5
Capital redemption reserve		1.8	1.8
Merger reserve		44.6	44.6
Cash flow hedging reserve		(2.0)	—
Retained earnings		57.3	21.1
<b>Total equity</b>		<b>1,281.7</b>	1,243.6

The Company's profit after taxation was £34.3m (2022: £55.1m loss).

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of directors on 5 March 2024 and signed on its behalf by:

**Adolfo Hernandez**

Chief Executive Officer

**Tim Weller**

Chief Financial Officer

Company registered number: 02081330

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.2 Company statement of changes in equity

	Share capital £m	Employee benefit trust shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m
At 1 January 2022	34.8	(8.0)	1,145.5	1.8	44.6	(0.7)	74.6	1,292.6
Loss for the year	—	—	—	—	—	—	(55.1)	(55.1)
Other comprehensive income	—	—	—	—	—	0.7	—	0.7
Total comprehensive expense for the year	—	—	—	—	—	0.7	(55.1)	(54.4)
Exercise of share options under employee long-term incentive plans	—	3.8	—	—	—	—	(3.8)	—
Share-based payment net of tax effects	—	—	—	—	—	—	5.4	5.4
At 1 January 2023	34.8	(4.2)	1,145.5	1.8	44.6	—	21.1	1,243.6
Profit for the year	—	—	—	—	—	—	34.3	34.3
Other comprehensive expense	—	—	—	—	—	(2.0)	—	(2.0)
Total comprehensive income for the year	—	—	—	—	—	(2.0)	34.3	32.3
Shares issued (note 4.6)	0.4	(0.4)	—	—	—	—	—	—
Exercise of share options under employee long-term incentive plans (note 4.6; note 5.1)	—	3.9	—	—	—	—	(3.9)	—
Share-based payment net of tax effects (note 2.6; note 5.1)	—	—	—	—	—	—	5.8	5.8
At 31 December 2023	35.2	(0.7)	1,145.5	1.8	44.6	(2.0)	57.3	1,281.7

The directors did not declare a dividend in 2023 or 2022.

**Share capital** – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 2 1/15 pence ordinary shares.

**Employee benefit trust shares** – Shares held in the employee benefit trust have no voting rights and no entitlement to a dividend.

**Share premium** – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

**Capital redemption reserve** – The Company can redeem shares by repaying the market value to shareholders, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

**Merger reserve** – The merger reserve arose from the adoption of the exemption under section 131 of the Companies Act 1985 not to set up a share premium account in respect of shares issued for the acquisition of entities. The amounts attributed to the shares issued for these acquisitions that exceeded their nominal value was transferred to the merger reserve.

**Cash flow hedging reserves** – This reserve records the portion of the gain or loss on hedging instruments that are determined to be an effective cash flow hedge.

**Retained earnings** – Net profits/(losses) accumulated in the Company after dividends are paid.

The accompanying notes are an integral part of these financial statements.

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3 Notes to the Company financial statements

##### 7.3.1 Accounting policies

###### **AP** Accounting policies

###### **Basis of preparation**

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international Financial Reporting Standards (IFRSs), but makes amendments where necessary to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) as issued by the Financial Reporting Council. The Company has not presented its own income statement as permitted by Section 408 of the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in relation to share based payments, financial instruments, capital management, the presentation of comparative information in respect of certain assets, the presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are the same as those set out in Sections 1 to 6 of the consolidated financial statements, except as noted below.

###### (a) Investments in subsidiaries

The Company has investments in subsidiaries which are shown at cost, less provisions for impairment. Investments in subsidiaries are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company determines whether investments in subsidiaries are impaired based on impairment indicators. If an indicator is identified, an impairment test is performed. This involves estimation of the enterprise value of the investee which is determined based on the greater of discounted future cash flows at a suitable discount rate or through the recoverable value of the investments held by the investee company. The Company also assesses whether there are indicators to reverse previously recognised impairment losses. Reversals of impairment are only recognised where there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

###### (b) Pension schemes

The Company participates in a defined contribution pension scheme where contributions are charged to the income statement in the year in which they are due. The scheme is funded and the payment of contributions is made to a separately administered trust fund. The assets of the scheme are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Ltd, a subsidiary company, which pays the Group liability centrally. Any unpaid contributions at the year-end are accrued in the accounts of that company.

The Company ceased to employ any active members in the Group's main defined benefit pension scheme in November 2022. This meant a Section 75 debt (which is a statutory debt due from a participating employer to the trustees of a multi-employer defined benefit pension scheme which is in deficit) became due. However, the Trustee Board of the defined benefit pension scheme agreed that the pension liabilities attributable to the Company could be transferred to Capita Business Services Ltd (the Principal Employer of the defined benefit pension scheme), which eliminates the Section 75 debt due from the Company. This Flexible Apportionment Arrangement was finalised in 2023 and consequently, the Company is no longer a formal participating employer in the defined benefit pension scheme.

Note 5.2 of the Group's consolidated financial statements sets out more detail about the Group's pension obligations.

###### (c) Share-based payments

Subsidiary companies of the Company reimburse the Company through the intercompany account for charges attributable to their employees participating in the Company's share option schemes.

###### (d) Amounts receivable from and/or payable to subsidiary companies

The amounts receivable from and/or payable to subsidiary companies are shown at cost plus accrued interest less any provision for impairment. Amounts receivable from subsidiary companies are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company determines whether amounts receivable from subsidiary companies are impaired by considering if there is an indicator of increased credit risk. The key assumption considered is the probability of a subsidiary company going into default at the balance sheet date.

The definition of default used by the Company is that the counterparty is in a net liability position. In this case credit risk at the balance sheet date is captured by the definition of default and the probability of default occurring on the next day (reflecting the contractual period of an on-demand loan). The policy is to assess the net asset/liability position of each investee and then to conclude on the probability of default, and quantum of any impairment, by reference to the future discounted cash flows. The key assumptions underpinning these cash flows are set out in note 7.3.3. With the contractual arrangements either based on repayment on-demand or fixed term loan the future credit risk had a very limited impact on the calculation of expected credit losses at the balance sheet date.

The cash shortfalls arising when an amount receivable from a subsidiary company is in default are assessed by discounting the expected future cash flows at the original effective interest rate of the instrument. Where it is expected that the principal and all associated interest can be recovered at some point in the future, no material expected credit loss is recognised.

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3.2 Property, plant and equipment

	Short-term leasehold improvements £m	Equipment right-of-use asset £m	Total £m
<b>Cost</b>			
At 1 January 2023	1.4	0.4	1.8
Asset retirements	(0.1)	(0.4)	(0.5)
At 31 December 2023	1.3	—	1.3
<b>Depreciation</b>			
At 1 January 2023	0.6	0.4	1.0
Charge for the year	0.2	—	0.2
Asset retirements	(0.1)	(0.4)	(0.5)
At 31 December 2023	0.7	—	0.7
<b>Net book value:</b>			
At 1 January 2023	0.8	—	0.8
At 31 December 2023	0.6	—	0.6

#### 7.3.3 Investments

	Shares in subsidiary undertakings £m
<b>Net book value</b>	
At 1 January 2023	994.3
Net impairment reversal <sup>1</sup>	1.7
At 31 December 2023	996.0

1. During the year ended 31 December 2023, Capita plc impaired its investments in Capita Financial Services Holdings Limited by £0.6m and reversed impairment in Capita Life & Pensions Services Limited by £2.0m, Capita Group Insurance PCC Limited by £0.2m and Capita Employee Benefits Holdings Limited by £0.1m.

Direct investments	Registered office	Proportion of nominal value of issued shares held by the Company
Capita Pension Solutions Limited <sup>2</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Legal Services Limited <sup>1</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Employee Benefits Holdings Limited <sup>1</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Financial Services Holdings Limited <sup>1</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Group Insurance PCC Limited <sup>3</sup>	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT, Guernsey	100%
Capita Holdings Limited <sup>1</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita International Limited <sup>2</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Life & Pensions Regulated Services Limited <sup>2</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita International Retirement Benefit Scheme Trustees Limited <sup>4</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Ireland Limited <sup>2</sup>	Unit B, West Cork Business & Technology Park, Clonakilty, Co. Cork, Republic of Ireland, P85 YH98	100%
Capita Life & Pensions Services Limited <sup>2</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Shared Services Limited <sup>5</sup>	65 Gresham Street, London, England, EC2V 7NQ	100%

- Investing holding company
- Outsourcing services company
- Insurance captive
- Trustee company for the pension schemes
- Internal services company

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3.3 Investments continued

Certain subsidiaries of the Group have opted to take advantage of a statutory exemption from having an audit in respect of their individual statutory accounts. Strict criteria must be met for this exemption to be taken and the exemption has been agreed to by the directors of those subsidiary entities.

Listed in note 7.3.16 to the Company's financial statements are subsidiaries controlled and consolidated by the Group, where the directors have taken advantage of the exemption from having an audit of the entities' individual statutory accounts for the year ended 31 December 2023 in accordance with Section 479A of the Companies Act 2006.

To facilitate the adoption of this exemption, Capita plc, the parent company of the subsidiaries concerned, undertakes to provide a guarantee under Section 479C of the Companies Act 2006 in respect of those subsidiaries. Details of all indirect subsidiaries, as required under Section 409 of the Companies Act 2006, are reported in note 7.3.16 to the Company's financial statements.

The Company considered whether there was an indicator of impairment in investments in subsidiaries at 31 December 2023, and due to the Company's market capitalisation being below the carrying value of the Company's net assets, concluded a trigger existed and performed an impairment test.

##### The impairment test

The recoverable amount has been determined using fair value less costs of disposal. For non-trading subsidiaries this is based on the net asset value of the entity as at 31 December 2023, which is considered to not be materially different to the fair value derived by other means. For all other entities, recoverable amount is estimated on a discounted cash flow basis. Recoverable amounts will also factor in the the recoverable amount of an entity's direct and indirect subsidiaries.

For discounted cash flow calculations, the cash flow projections used for the impairment test are derived from the 2024-2026 business plans approved by the Board of Directors. Key assumptions in the BP include the delivery of planned revenue growth and the benefits that the cost reduction programme is anticipated to deliver. The enterprise value is then calculated based on the present value of estimated future cash flows discounted at the current market rate of return.

The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to the forecast cash flows for the terminal period. The 2023 long-term growth rate is 1.7% (2022: 2.2%).

Management estimates discount rates using pre-tax rates that reflect the latest market assumptions for the risk-free rate, the equity risk premium and the cost of debt, which are all based on publicly available external sources.

The table below presents the pre-tax discount rates applied to the cash flows for 2023 and 2022.

	Capita Public Service	Capita Experience
2023	11.0%	9.2%
2022	11.8%	10.4%

At 31 December 2023, an impairment reversal of £1.7m (2022 impairment charge: £7.0m) arose from the impairment test performed.

#### Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. To gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which investments are the most susceptible to an impairment should the assumptions used be varied. This sensitivity analysis is only applicable to those investments which have not already been fully impaired.

The sensitivity scenarios applied estimate potential additional impairments required (with all other variables being equal) through: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for each of the investments; or, through the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations, for 2024 to 2026, and the long-term growth rate (1.7%) applied to the 2026 downside cash flows to generate projected cash flows for 2027, 2028, and the terminal period. We have also considered the impact of all of the scenarios together, which is also a reasonable possible alternative.

No additional impairments have been identified under any of the sensitivity scenarios, including the combination sensitivity scenario.

Management continues to monitor closely the performance of all investments in subsidiaries and consider the impact of any changes to the key assumptions.

#### 7.3.4 Financial instruments

	Financial assets 2023 £m	Financial liabilities 2023 £m	Financial assets 2022 £m	Financial liabilities 2022 £m
Cash flow hedges	—	1.2	—	—
Non-designated foreign exchange forwards and swaps	1.6	3.8	10.7	0.1
Cross-currency interest rate swaps	14.5	0.9	25.8	1.0
	<b>16.1</b>	<b>5.9</b>	36.5	1.1
<b>Analysed as:</b>				
Current	1.2	1.6	15.7	0.1
Non-current	14.9	4.3	20.8	1.0
	<b>16.1</b>	<b>5.9</b>	36.5	1.1

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3.5 Deferred tax

	2023 £m	2022 £m
Deferred tax included in the balance sheet is as follows:		
Accelerated capital allowances	3.8	3.9
Tax losses	1.0	1.0
Other short-term timing differences	7.0	6.3
	<b>11.8</b>	11.2

#### 7.3.6 Amounts receivable from and/or payable to subsidiary companies

	Current		Non-current	
	2023 £m	2022 £m	2023 £m	2022 £m
Amounts receivable from subsidiary companies	2,213.9	2,494.8	56.4	64.4

Amounts due within one year are repayable on demand along with any accrued interest. Amounts due after more than one year is a fixed term loan. The expected credit loss provision against amounts receivable from subsidiary companies is immaterial.

	Current		Non-current	
	2023 £m	2022 £m	2023 £m	2022 £m
Amounts payable to subsidiary companies	1,810.4	2,302.7	—	—

Amounts payable to subsidiary companies are repayable on demand together with any accrued interest.

#### 7.3.7 Trade and other receivables

	Current		Non-current	
	2023 £m	2022 £m	2023 £m	2022 £m
Other debtors	0.3	1.1	—	—
Other taxes and social security	1.3	0.1	—	—
Prepayments	0.5	0.4	—	—
	<b>2.1</b>	1.6	—	—

#### 7.3.8 Trade and other payables

	Current		Non-current	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade creditors	9.6	8.9	—	—
Other creditors	0.4	0.7	0.3	—
	<b>10.0</b>	9.6	<b>0.3</b>	—

#### 7.3.9 Provisions

	2023 £m	2022 £m
At 1 January	4.8	8.2
Provisions in the year	—	1.6
Releases in the year	(0.6)	(1.2)
Utilisation	—	(3.8)
At 31 December	<b>4.2</b>	4.8

The majority of the provisions relate to the claims and litigation provisions of £4.0m. Further detail on these provisions can be found in note 3.6 to the Group's consolidated financial statements.

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3.10 Borrowings

	2023 £m	2022 £m
Private placement loan notes - principal	103.4	47.3
Unamortised discount on debt issuance	—	(1.6)
Unamortised transaction costs on debt issuance	(3.9)	(1.5)
<b>Total borrowings</b>	<b>99.5</b>	<b>44.2</b>
Maturity analysis is as follows:		
In more than 1 years but not more than 5 years	99.5	—
Falling due after more than 5 years	—	44.2
<b>Total borrowings</b>	<b>99.5</b>	<b>44.2</b>

The Company issued guaranteed unsecured private placement loan notes as follows:

	Interest rate (%)		Amounts (m)	Maturity
Private placement loan notes	8.000	USD	45.0	25 July 2026
Private placement loan notes	9.350	GBP	50.0	25 July 2026
Private placement loan notes	8.210	USD	23.0	25 July 2028

In June 2023, the Company extended the RCF to 31 December 2026 at £284m, reducing to £250m by 1 January 2025 as a consequence of specified transactions. As such at 31 December 2023 the RCF commitment had been reduced to £260.7m (2022: £288.4m) and was subsequently reduced to £250.0m on 23 January 2024 following receipt of proceeds from the Fera disposal (refer to note 6.3 of the consolidated financial statements). The RCF was not drawn upon at 31 December 2023 (2022: undrawn).

Further detail on these facilities can be found in note 4.2 to the Group's consolidated financial statements.

#### 7.3.11 Share capital

Disclosures about the share capital, share premium, and employee benefit trust shares of the Company have been included in note 4.6 to the Group's consolidated financial statements.

#### 7.3.12 Contingent liabilities

The Group has provided, through the normal course of its business, performance bonds and bank guarantees totalling £22.5m of which the Parent Company has provided £3.3m (2022: £34.0m; Parent Company £3.3m). At 31 December 2023 there was an additional guarantee of £15m in relation to the disposed Travel businesses, which has since reduced to £9.5m in January 2024. Capita plc's exposure is counter-indemnified by Clarity Travel Limited.

#### 7.3.13 Related-party transactions

In the following, amounts for purchases and sales are for transactions invoiced during the year inclusive of VAT where applicable. All transactions are undertaken at arm's length prices.

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.1m (2022: £1.2m). The Company purchased goods/services in the normal course of business from Entrust Support Services Limited for £1.2m (2022: £0.4m). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £nil (2022: £nil).

Capita Glamorgan Consultancy Limited was sold on 22 September 2022. From 1 January 2022 to 22 September 2022, the Company sold goods/services in the normal course of business to Capita Glamorgan Consultancy Limited for £0.1m.

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £0.3m (2022: £0.7m). The Company purchased goods/services in the normal course of business from Fera Science Limited for £nil (2022: £0.1m). At the balance sheet date, the net amount receivable from Fera Science Limited was £nil (2022: £nil).

#### 7.3.14 Pension costs

The Company operates a defined contribution pension scheme. The pension charge for this scheme for the year was £0.6m (2022: £1.5m).

#### 7.3.15 Share-based payments

The Company operates several share-based payment plans and details of the schemes are disclosed in note 5.1 of the Group's consolidated financial statements.

The Group consolidated income statement recognised an expense for share-based payments in respect of employee services received during the year to 31 December 2023 of £5.5m (2022: £5.4m), all of which arose from equity-settled share-based payment transactions. After recharging subsidiary companies for their participation in these transactions, the total Company expense in its income statement in respect of share-based payments was £3.1m (2022: £3.0m).

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3.16 Related companies

The stated address relates to the place of incorporation of the entity, which is the same as its tax residence in all cases other than Capita Group Insurance PCC Limited which is incorporated in Guernsey, but which is tax resident in the UK.

Unless otherwise indicated, all shareholdings are owned indirectly by the company and represent 100% of the issued share capital of the subsidiary. Dormant companies are marked (D).

Company name	Share class	Company name	Share class
Akinika Debt Recovery Limited <sup>7</sup>	£1.00 Ordinary	Capita Group Secretary Limited (D) <sup>7</sup>	£1.00 Ordinary
Akinika Limited <sup>7</sup>	£1.00 Ordinary	Capita HCH Limited <sup>7</sup>	£1.00 Ordinary
Akinika UK Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	Capita Health and Wellbeing Limited <sup>7</sup>	£1.00 Ordinary
Artificial Labs Ltd <sup>2</sup> ●	£0.000025 Ordinary	Capita Health Holdings Limited <sup>7</sup>	£1.00 Ordinary
Brightwave Enterprises Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	Capita Holdings Limited <sup>7*</sup>	£1.00 Ordinary
Brightwave Holdings Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	Capita India Private Limited <sup>22</sup>	INR10.00 Ordinary
Brightwave Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	Capita Insurance Services Group Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Capita (210568) Limited <sup>26</sup>	€0.0012 Ordinary	Capita Insurance Services Holdings Limited <sup>7</sup>	£1.00 Ordinary
Capita (Polska) Spółka z ograniczoną odpowiedzialnością <sup>12</sup>	PLZ50.00 Ordinary	Capita Insurance Services Limited <sup>7</sup>	£1.00 Ordinary
Capita (South Africa) (Pty) Limited <sup>10</sup>	ZAR1.00 Ordinary	Capita International Limited <sup>7*</sup>	£1.00 Ordinary
Capita (USA) Holdings Inc. <sup>9</sup>	US\$1.00 Ordinary	Capita International Retirement Benefit Scheme Trustees Limited (D) <sup>7*</sup>	£1.00 Ordinary
Capita Birmingham Limited <sup>7</sup>	£1.00 Ordinary	Capita Ireland Limited <sup>26*</sup>	€1.00 Ordinary
Capita Business Services Ltd <sup>7</sup>	£1.00 Ordinary	Capita IT Services (BSF) Limited <sup>7</sup>	£1.00 Ordinary
Capita Business Support Services Ireland Limited <sup>26</sup>	€1.00 Ordinary	Capita IT Services Holdings Limited <sup>7</sup>	£1.00 Ordinary
Capita Corporate Director Limited (D) <sup>7</sup>	£1.00 Ordinary	Capita IT Services Limited <sup>21</sup>	£1.00 Ordinary
Capita Customer Management Limited <sup>7</sup>	£1.00 Ordinary	Capita Justice & Secure Services Holdings Limited <sup>7</sup>	£1.00 Ordinary
Capita Customer Services (Germany) GmbH <sup>23</sup>	€1.00 Ordinary	Capita Learning Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Capita Customer Services AG <sup>16</sup>	CHF1.00 Ordinary	Capita Legal Services Limited <sup>7*</sup>	£1.00 Ordinary
Capita Customer Solutions (UK) Limited <sup>7</sup>	£1.00 Ordinary	Capita Life & Pensions Regulated Services Limited <sup>7*</sup>	£1.00 Ordinary
Capita Customer Solutions Limited <sup>26</sup>	£1.00 Ordinary	Capita Life & Pensions Services Limited <sup>7*</sup>	£1.00 Ordinary
Capita Cyprus Holdings Limited <sup>25</sup>	£1.00 Ordinary	Capita Life and Pensions International Limited <sup>7</sup>	£1.00 Ordinary
Capita Dubai Limited <sup>7</sup>	£1.00 Ordinary	Capita Life and Pensions Services (Isle of Man) Limited (D) <sup>19</sup>	£1.00 Ordinary
Capita Employee Benefits (Consulting) Limited <sup>7</sup>	£1.00 Ordinary	Capita Managed IT Solutions Limited <sup>14</sup>	£1.00 Ordinary
Capita Employee Benefits Holdings Limited (D) <sup>7*</sup>	£1.00 Ordinary	Capita McLaren Limited (in liquidation) <sup>11</sup>	£1.00 Ordinary
Capita Energie Services GmbH <sup>18</sup> ▶	€1.00 Ordinary	Capita Mortgage Administration Limited <sup>7</sup>	£1.00 Ordinary
Capita ESS Holdings Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	Capita Mortgage Software Solutions Limited <sup>7</sup>	£1.00 Ordinary
Capita Financial Services Holdings Limited <sup>7*</sup>	£1.00 Ordinary	Capita Norman + Dawbarn Limited (in liquidation) <sup>4</sup> □	NGN1.00 Ordinary
Capita Gas Registration and Ancillary Services Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	Capita Offshore Services Private Limited (in liquidation) <sup>22</sup>	INR10.00 Ordinary
Capita GMPS Trustees Limited (D) <sup>7</sup>	£1.00 Ordinary	Capita One Limited <sup>7</sup>	£1.00 Ordinary
Capita Group Insurance PCC Limited <sup>20*</sup>	£1.00 CG1 £1.00 CIC2 £1.00 Ordinary	Capita Pension Solutions Limited <sup>7*</sup>	£1.00 Ordinary

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3.16 Related companies continued

Company name	Share class	Company name	Share class
Capita Property and Infrastructure (Structures) Limited <sup>7</sup>	£1.00 Ordinary	Entrust Support Services Limited <sup>24</sup> ▼	£1.00 Ordinary X
Capita Property and Infrastructure Consultants LLC (in liquidation) <sup>3*</sup>	AED1,000.00 Ordinary	Euristix (Holdings) Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Capita Property and Infrastructure Holdings Limited <sup>7</sup>	£1.00 Ordinary	Euristix Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Capita Property and Infrastructure International Holdings Limited (D) <sup>7</sup>	£1.00 Ordinary	Fera Science Limited <sup>7</sup> ■	£1.00 Ordinary B
Capita Property and Infrastructure International Limited (D) <sup>7</sup>	£1.00 Ordinary	Fire Service College Limited <sup>7</sup>	£1.00 Ordinary
Capita Property and Infrastructure Limited <sup>7</sup>	£1.00 Ordinary	FirstAssist Services Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Capita Retail Financial Services Limited <sup>7</sup>	£1.00 Ordinary	Full Circle Contact Centre Services (Proprietary) Limited <sup>10</sup>	ZAR0.01 Ordinary
Capita Scotland General Partner (Pension) Limited (in liquidation) <sup>11</sup>	£1.00 Ordinary	Grosvenor Career Services Limited (D) <sup>7</sup>	£1.00 Ordinary
Capita Secure Information Solutions Limited <sup>7</sup>	£1.00 Ordinary	Level Financial Technology Limited <sup>5</sup> ■	£0.001 Ordinary
Capita Shared Services Limited <sup>7*</sup>	£1.00 Ordinary	Liberty Printers (AR And RF Reddin) Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Capita Southampton Limited <sup>7</sup>	£1.00 Ordinary	Market Mortgage Limited <sup>7</sup> ←	£0.001 Ordinary
Capita Symonds (Asia) Limited (D) <sup>7</sup>	£1.00 Ordinary	Metacharge Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Capita Symonds Saudi Arabia Limited (D) <sup>15</sup> ▲	N/A	Octal Business Solutions Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Capita West GmbH <sup>23</sup>	€25,000.00 Ordinary	RE (Regional Enterprise) Limited <sup>7</sup>	£1.00 Ordinary
Clinical Solutions Acquisition Limited (D) <sup>7</sup>	£1.00 Ordinary	Retain International (Holdings) Limited (D) <sup>7</sup>	£1.00 Ordinary
Clinical Solutions Finance Limited <sup>7</sup>	£1.00 Ordinary	Retain International Limited (D) <sup>7</sup>	£1.00 Ordinary
Clinical Solutions Holdings Limited (D) <sup>7</sup>	£1.00 Ordinary	SBJ Benefit Consultants Limited (D) <sup>7</sup>	£1.00 Ordinary
Clinical Solutions International Limited <sup>7</sup>	£1.00 Ordinary	SBJ Professional Trustees Limited (D) <sup>7</sup>	£1.00 Ordinary
Clinical Solutions IP Limited (D) <sup>7</sup>	£1.00 Ordinary	SDP Regeneration Services 2 Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Computerland UK Limited <sup>7</sup>	£1.00 Ordinary	Smart DCC Limited <sup>7</sup>	£1.00 Ordinary
Contact Associates Limited <sup>7</sup>	£1.00 Ordinary	Tascor E & D Services Limited <sup>7</sup>	£1.00 Ordinary
CPLAS Trustees Limited (D) <sup>7</sup>	£1.00 Ordinary	Tascor Services Limited <sup>7</sup>	£1.00 Ordinary
Cymbio Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	TELAG AG <sup>13</sup>	CHF1,000.00 Ordinary
Daisy Update Communications Limited <sup>17</sup> ▲	£1.00 Ordinary B	The G2G3 Group Ltd. (in liquidation) <sup>11</sup>	£1.00 Ordinary
Debt Solutions (Holdings) Limited <sup>7</sup>	£1.00 Ordinary	ThirtyThree APAC Limited (D) <sup>8</sup>	HKD1.00 Ordinary
Dragonfly Technology Solutions Ltd <sup>7</sup> ○	£0.000001 Ordinary £0.000001 A Ordinary	Update Infrastructure (UK) Limited <sup>7</sup>	£1.00 Ordinary
DSTBTD LIMITED <sup>28</sup> <	£0.001 Ordinary	Update Infrastructure 2012 Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary
Duke 2021 Topco Limited <sup>6</sup> >	£1.00 B Ordinary	Urban Vision Partnership Limited <sup>9</sup> ▶	£1.00 Ordinary B
E.B. Consultants Limited (D) <sup>7</sup>	£1.00 Ordinary	Ventura (India) Private Limited <sup>27</sup>	INR10.00 Ordinary
Electra-Net (UK) Limited <sup>9</sup>	£1.00 Ordinary	Ventura (UK) India Limited <sup>7</sup>	£1.00 Ordinary
Electra-Net Group Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	Voice Marketing Limited <sup>7</sup>	£1.00 Ordinary
Electra-Net Holdings Limited (in liquidation) <sup>1</sup>	£1.00 Ordinary	Western Mortgage Services Limited <sup>7</sup>	£1.00 Ordinary
		Woolf Limited <sup>7</sup>	£1.00 Ordinary

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3.16 Related companies continued

##### Footnotes

\* Companies directly held by Capita plc.

> Shareholdings owned indirectly by the company and represent 0.28% of the issued share capital of subsidiary.

< Shareholdings owned indirectly by the company and represent 9.14% of the issued share capital of subsidiary.

● Shareholdings owned indirectly by the company and represent 4.62% of the issued share capital of subsidiary.

○ Shareholdings owned indirectly by the company and represent 8.87% of the issued share capital of subsidiary.

✦ Shareholdings owned indirectly by the company and represent 49% of the issued share capital of subsidiary.

▲ Shareholdings owned indirectly by the company and represent 50% of the issued share capital of subsidiary.

➤ Shareholdings owned indirectly by the company and represent 50.1% of the issued share capital of subsidiary.

▼ Shareholdings owned indirectly by the company and represent 51% of the issued share capital of subsidiary.

➤ Shareholdings owned indirectly by the company and represent 48.29% of the issued share capital of subsidiary.

■ Shareholdings owned indirectly by the company and represent 75% of the issued share capital of subsidiary.

□ Shareholdings owned indirectly by the company and represent 97.3% of the issued share capital of subsidiary.

■ Shareholdings owned indirectly by the company and represent 23.61% of the issued share capital of subsidiary.

##### Registered office address

1. 1 More London Place, London, SE1 2AF, England
2. 10 Bow Lane, London, EC4M 9AL, England
3. 1004 Bin Hamoodah Building, Khalifa St., PO Box 113 740, Abu Dhabi, United Arab Emirates
4. 10th Floor, UBA House, No 57, Marina Street, Lagos Island, Lagos, Nigeria
5. 160 Eureka Park Upper Pemberton, Kennington, Ashford, England, TN25 4AZ
6. 22 Grenville Street, St Helier, JE4 8PX, Jersey
7. 65 Gresham Street, London, EC2V 7NQ, England
8. 803 Manning House, 38 Queen's Road Central, Hong Kong
9. 850 New Burton Road, Suite 201, Dover, DE, 19904, United States
10. 8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, Western Cape, 8001, South Africa
11. Atria One, 144 Morrison Street, Edinburgh, EH3 8EX, United Kingdom
12. Centrum Biurowe Lubicz ul. Lubicz 23, 31-503 Krakow, Polska
13. Hardturmstrasse 101, Zürich, 8005, Switzerland
14. Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ, Northern Ireland
15. King Abdul Aziz Street, PO Box 7052, Dammam, Saudi Arabia
16. Konstanzerstrasse 17, Tägerwilen, 8274, Switzerland
17. Lindred House, 20 Lindred Road, Brierfield, Nelson, Lancashire, BB9 5SR, United Kingdom
18. Nassauer Ring 39-41, Krefeld, 47803, Germany
19. PO Box 227, Peveril Buildings, Peveril Square, Douglas, Isle of Man, IM99 1RZ
20. PO Box 33, Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT
21. Pavilion Building Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW, United Kingdom
22. Plant 6, Gate No. 2, Godrej and Boyce Complex, LBS Marg, Pirojshahnagar, Vikhroli (West), Mumbai, 400079, India
23. Rudower Chaussee 4, Berlin, 12489, Germany
24. The Riverway Centre, Riverway, Stafford, ST16 3TH, United Kingdom
25. Themistokli Dervi 3, Julia House, Nicosia, 1066, Cyprus
26. Unit B, West Cork Business & Technology Park, Clonakilty, Co. Cork, P85 YH98
27. Upper Ground Level, Level 1, Level 2, & Level 3, Tower B1, Margapatta City SEZ, Margapatta City, Hadapsar, Pune, 411013, India
28. Wsm, Connect House 133-137 Alexandra Road Wimbledon, London, SW19 7JY, United Kingdom

## I Company financial statements *continued*

### Section 7: Company financial statements *continued*

#### 7.3.16 Related companies *continued*

Listed below are subsidiaries controlled and consolidated by the Group, where the directors have taken the exemption from having an audit of its financial statements for the year ended 31 December 2023. This exemption is taken in accordance with Section 479A of the Companies Act 2006.

Company name	Company registration	Company name	Company registration
Akinika Debt Recovery Limited	01242485	Capita Property and Infrastructure (Structures) Limited	02082106
Akinika Limited	01613010	Capita Property and Infrastructure Holdings Limited	03840627
Capita Customer Solutions (UK) Limited	07886341	Capita Property and Infrastructure International Holdings Limited	03860653
Capita Dubai Limited	10908066	Capita Property and Infrastructure International Limited	02752154
Capita Employee Benefits Holdings Limited	06722404	Capita Retail Financial Services Limited	05296886
Capita Financial Services Holdings Limited	10016286	Capita Secure Information Solutions Limited	01593831
Capita HCH Limited	02384029	Computerland UK Limited	02275625
Capita Health Holdings Limited	06413394	Contact Associates Limited	05601393
Capita Insurance Services Holdings Limited	06041965	Debt Solutions (Holdings) Limited	03673307
Capita Insurance Services Limited	01396443	E.B. Consultants Limited	01106104
Capita International Limited	02683437	Electra-Net (UK) Limited	03419833
Capita International Retirement Benefit Scheme Trustees Limited	02328910	Fire Service College Limited	08102633
Capita IT Services Holdings Limited	06002593	Grosvenor Career Services Limited	03119327
Capita IT Services Limited	SC045439	RE (Regional Enterprise) Limited	08615172
Capita Justice & Secure Services Holdings Limited	04746912	Retain International (Holdings) Limited	07871708
Capita Life and Pensions International Limited	05952054	Retain International Limited	03061744
Capita Life and Pensions Services Limited	04359665	Tascor E & D Services Limited	09980217
Capita Managed IT Solutions Limited	NI032979	Tascor Services Limited	02057887
Capita Mortgage Administration Limited	02042968	Urban Vision Partnership Limited	05292634
Capita Mortgage Software Solutions Limited	01855353	Ventura (UK) India Limited	05131185
Capita Property and Infrastructure Limited	02018542	Woolf Limited	01564535

## I Additional information

### Section 8: Additional information

#### In this section

- 8.1 Shareholder information
- 8.2 Alternative performance measures

#### 8.1 Shareholder information

In this section we have provided you with some key information to manage your shareholding in Capita plc.

##### Useful websites

Capita ([www.capita.com/investors](http://www.capita.com/investors))

Our corporate site is our main external communication channel where we showcase our services, solutions and innovations from across the Group. It also contains an investor section, where institutional and private shareholders can access the latest announcements, financial and statutory information and reports.

Shareholder portal ([www.capitashares.co.uk](http://www.capitashares.co.uk))

Capita's register of shareholders is maintained by Link Group. Our shareholder portal is a secure online site where you can manage your shareholding quickly and easily. You can manage many aspects, such as viewing your holding, updating contact details, managing dividend payments, requesting to receive shareholder communications by email and registering. To register you will need your investor code, which can be found on your share certificate or dividend confirmation.

##### e-communications

Help us communicate with you in a greener, more efficient and cost-effective way by switching from postal to email communications, which means that we will notify you by email every time a new shareholder communication has been placed on the Capita website.

Registering for e-communications is straightforward. Go to our shareholder portal [www.capitashares.co.uk](http://www.capitashares.co.uk).

##### Managing your shareholding

We aim to communicate effectively with our shareholders, via our website [www.capita.com/investors](http://www.capita.com/investors). Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual reports should contact Capita's investor relations team on +44-(0)772-016-9269 or email: [IRTeam@capita.com](mailto:IRTeam@capita.com).

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Link Group:

Link Group  
10th Floor Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

Email: [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)

Tel: +44-(0)371-664-0300 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate.)

Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

##### Company contact details

##### Registered office

Capita plc  
65 Gresham Street  
London EC2V 7NQ  
Tel: 020-7799-1525  
Registered in England and Wales with registration number: 02081330

##### Investor Relations

[IRTeam@capita.com](mailto:IRTeam@capita.com)  
Director of Investor Relations – Helen Parris

##### Company Secretariat

[secretariat@capita.com](mailto:secretariat@capita.com)  
Chief General Counsel and Group Company Secretary – Claire Denton

##### Company advisers

Independent auditor  
KPMG LLP

Corporate brokers  
Barclays Bank plc  
Numis Securities Limited

Bankers  
Barclays Bank plc  
Lloyds Bank plc  
National Westminster Bank plc  
Citibank, N.A., London Branch  
Standard Chartered Bank  
Bank of China Limited, London Branch  
ING Bank N.V., London Branch  
Goldman Sachs International Bank

Corporate communications  
Brunswick

Registrars  
Link Group

## I Additional information *continued*

### Section 8: Additional information *continued*

**N** New APM in the year

**U** Definition updated in the year

**R** Comparatives re-presented

#### 8.2 Alternative performance measures

The Group presents various alternative performance measures (APMs) because internally the performance of the Group is reported and measured on this basis. This includes Key Performance Indicators (KPIs) such as adjusted revenue, adjusted profit before tax, adjusted basic/diluted earnings per share, free cash flow excluding business exits, and gearing ratios. In general, the Board believes that the APMs are useful for investors because they provide further clarity and transparency of the Group's financial performance and are closely monitored by management to evaluate the Group's operating performance to facilitate financial, strategic and operating decisions.

These APMs should not be viewed as a complete picture of the Group's financial performance which is presented in the reported results. The exclusion of certain items may result in a more favourable view when costs such as acquired intangible amortisation, costs relating to the cyber incident in March 2023, expenses associated with the cost reduction programme announced in November 2023 and impairments of goodwill are excluded. These measures may not be comparable when reviewing similar measures reported by other companies.

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation																																																		
<b>Income statement</b>																																																				
<b>Adjusted revenue</b> <b>R</b>	<b>Revenue</b>	<p>Calculated as revenue less any revenue relating to businesses that have been sold, or exited during the year or prior year; or, are in the process of being sold, or exited.</p> <p>This measure of revenue is used internally in respect of the Group's continuing business (being the Group's continuing activities, which exclude business exits) and the Board believes it is a good indication of ongoing performance.</p> <p>The table below shows a reconciliation between reported and adjusted revenue, as well as adjusted revenue growth:</p> <table border="1"> <thead> <tr> <th></th> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Reported revenue per the income statement</td> <td><b>£2,814.6m</b></td> <td>£3,014.6m</td> </tr> <tr> <td>Deduct: business exits (note 2.2.1)</td> <td><b>(£172.5m)</b></td> <td>(£405.6m)</td> </tr> <tr> <td>Adjusted revenue</td> <td><b>£2,642.1m</b></td> <td>£2,609.0m</td> </tr> <tr> <td>Adjusted revenue growth</td> <td><b>1.3 %</b></td> <td>1.7 %</td> </tr> </tbody> </table>		2023	2022	Reported revenue per the income statement	<b>£2,814.6m</b>	£3,014.6m	Deduct: business exits (note 2.2.1)	<b>(£172.5m)</b>	(£405.6m)	Adjusted revenue	<b>£2,642.1m</b>	£2,609.0m	Adjusted revenue growth	<b>1.3 %</b>	1.7 %																																			
	2023	2022																																																		
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Adjusted revenue growth	<b>1.3 %</b>	1.7 %																																																		
<b>Adjusted operating profit</b> <b>U</b>	<b>Operating profit</b>	<p>Calculated as reported operating profit excluding items determined by the Board to be outside underlying operations. These items are detailed in note 2.4.</p> <p>A reconciliation of reported to adjusted operating profit is provided in note 2.4.</p>																																																		
<b>Adjusted operating profit margin</b> <b>U</b>	<b>Operating profit margin</b>	<p>Calculated as the adjusted operating profit divided by adjusted revenue.</p> <p>This measure is an indicator of the Group's operating efficiency.</p> <p>The table below shows the components, and calculation, of adjusted operating profit margin:</p> <table border="1"> <thead> <tr> <th></th> <th></th> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Adjusted revenue</td> <td>a</td> <td><b>£2,642.1m</b></td> <td>£2,609.0m</td> </tr> <tr> <td>Adjusted operating profit (note 2.4)</td> <td>b</td> <td><b>£106.5m</b></td> <td>£78.0m</td> </tr> <tr> <td>Adjusted operating profit margin</td> <td>b/a</td> <td><b>4.0 %</b></td> <td>3.0 %</td> </tr> </tbody> </table>			2023	2022	Adjusted revenue	a	<b>£2,642.1m</b>	£2,609.0m	Adjusted operating profit (note 2.4)	b	<b>£106.5m</b>	£78.0m	Adjusted operating profit margin	b/a	<b>4.0 %</b>	3.0 %																																		
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Adjusted operating profit (note 2.4)	b	<b>£106.5m</b>	£78.0m																																																	
Adjusted operating profit margin	b/a	<b>4.0 %</b>	3.0 %																																																	
<b>Adjusted EBITDA</b> <b>U</b>	<b>No direct equivalent</b>	<p>Calculated as adjusted operating profit for the last twelve months before: depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets; net finance costs; and the share of results in associates and investment gains (other than those already excluded from adjusted operating profit).</p> <p>The directors believe that adjusted Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) is a useful measure for investors because it is closely monitored by management to evaluate Group and divisional operating performance.</p> <p>This measure has been calculated pre and post the impact of IFRS 16 to enable investors to understand the impact of the Group's lease portfolio on adjusted EBITDA.</p> <p>The table below shows the calculation of adjusted EBITDA:</p> <table border="1"> <thead> <tr> <th></th> <th colspan="2">Post IFRS 16</th> <th colspan="2">Pre IFRS 16</th> </tr> <tr> <th></th> <th>2023</th> <th>2022</th> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Adjusted profit before tax</td> <td><b>£56.5m</b></td> <td>£49.8m</td> <td><b>£57.0m</b></td> <td>£55.0m</td> </tr> <tr> <td>Add back: adjusted net finance costs (note 4.3)</td> <td><b>£50.0m</b></td> <td>£34.0m</td> <td><b>£31.8m</b></td> <td>£15.7m</td> </tr> <tr> <td>Add back: adjusted depreciation and impairment of property, plant and equipment (note 3.2)</td> <td><b>£30.7m</b></td> <td>£43.1m</td> <td><b>£30.7m</b></td> <td>£43.1m</td> </tr> <tr> <td>Add back: depreciation and impairment of right-of-use assets (note 3.5)</td> <td><b>£50.7m</b></td> <td>£52.7m</td> <td><b>£—m</b></td> <td>£—m</td> </tr> <tr> <td>Add back: adjusted amortisation and impairment of intangibles (note 3.3)</td> <td><b>£26.7m</b></td> <td>£30.6m</td> <td><b>£26.7m</b></td> <td>£30.6m</td> </tr> <tr> <td>Remove: share of results in associates and investment gains (income statement)</td> <td><b>£—m</b></td> <td>(£5.8m)</td> <td><b>£—m</b></td> <td>(£5.8m)</td> </tr> <tr> <td>Adjusted EBITDA</td> <td><b>£214.6m</b></td> <td>£204.4m</td> <td><b>£146.2m</b></td> <td>£138.6m</td> </tr> <tr> <td>Adjusted EBITDA margin</td> <td><b>8.1 %</b></td> <td>7.8 %</td> <td><b>5.5 %</b></td> <td>5.3 %</td> </tr> </tbody> </table>		Post IFRS 16		Pre IFRS 16			2023	2022	2023	2022	Adjusted profit before tax	<b>£56.5m</b>	£49.8m	<b>£57.0m</b>	£55.0m	Add back: adjusted net finance costs (note 4.3)	<b>£50.0m</b>	£34.0m	<b>£31.8m</b>	£15.7m	Add back: adjusted depreciation and impairment of property, plant and equipment (note 3.2)	<b>£30.7m</b>	£43.1m	<b>£30.7m</b>	£43.1m	Add back: depreciation and impairment of right-of-use assets (note 3.5)	<b>£50.7m</b>	£52.7m	<b>£—m</b>	£—m	Add back: adjusted amortisation and impairment of intangibles (note 3.3)	<b>£26.7m</b>	£30.6m	<b>£26.7m</b>	£30.6m	Remove: share of results in associates and investment gains (income statement)	<b>£—m</b>	(£5.8m)	<b>£—m</b>	(£5.8m)	Adjusted EBITDA	<b>£214.6m</b>	£204.4m	<b>£146.2m</b>	£138.6m	Adjusted EBITDA margin	<b>8.1 %</b>	7.8 %	<b>5.5 %</b>	5.3 %
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## I Additional information *continued*

### Section 8: Additional information *continued*

#### 8.2 Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation												
<b>Income statement continued</b>														
<b>Adjusted profit/(loss) before tax</b> U	<b>Profit/(loss) before tax</b>	<p>Calculated as profit or loss before tax excluding the items detailed in note 2.4, which includes: business exits (trading results, non-trading expenses, and any gain/(loss) on business disposal); acquired intangible amortisation; impairment of goodwill and acquired intangibles; costs of the cyber incident in March 2023; and expenses associated with the cost reduction programme announced in November 2023.</p> <p>A reconciliation of reported to adjusted profit before tax is provided in note 2.4.</p>												
<b>Adjusted profit/(loss) after tax</b> U	<b>Profit/(loss) after tax</b>	<p>Calculated as the above adjusted profit or loss before tax, less the tax credit or expense on adjusted profit or loss.</p> <p>The table below shows a reconciliation:</p> <table border="1"> <thead> <tr> <th></th> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Adjusted profit before tax (note 2.4)</td> <td>£56.5m</td> <td>£49.8m</td> </tr> <tr> <td>Tax on adjusted profit (note 2.6.1)</td> <td>(£31.1m)</td> <td>(£4.4m)</td> </tr> <tr> <td>Adjusted profit after tax</td> <td>£25.4m</td> <td>£45.4m</td> </tr> </tbody> </table>		2023	2022	Adjusted profit before tax (note 2.4)	£56.5m	£49.8m	Tax on adjusted profit (note 2.6.1)	(£31.1m)	(£4.4m)	Adjusted profit after tax	£25.4m	£45.4m
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<b>Adjusted basic earnings per share</b> U	<b>Basic earnings per share</b>	<p>Calculated as the adjusted profit or loss for the year after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the year.</p> <p>The Board believes that this provides an indication of basic earnings per share of the Group on adjusted profit after tax.</p> <p>For the calculation of adjusted basic earnings per share refer to note 2.7.</p>												
<b>Adjusted diluted earnings per share</b> U	<b>Diluted earnings per share</b>	<p>Calculated as the adjusted profit or loss for the year after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.</p> <p>The Board believes that this provides an indication of diluted earnings per share of the Group on adjusted profit after tax.</p> <p>For the calculation of adjusted diluted earnings per share refer to note 2.7.</p>												
<b>Cash flows and net debt</b>														
<b>Cash flows generated/(used) by operations excluding business exits</b> R	<b>Cash generated/(used) by operations</b>	<p>Calculated as the cash flows generated from operations excluding the items detailed in note 2.9.2 which includes: business exits (trading results, non-trading expenses) and pension deficit contributions which have been triggered by disposals.</p> <p>A reconciliation of reported to cash generated/(used) by operations excluding business exits is provided in note 2.9.2.</p>												
<b>Free cash flow and free cash flow excluding business exits</b> U	<b>Net cash flows from operating activities</b>	<p>Free cash flow is calculated as cash generated from operations after: capital expenditure; income tax and interest; and, the proceeds from the sale of property, plant and equipment and intangible assets; and the capital element of lease payments and receipts. Free cash flow excluding business exits has the same calculation but is excluding the impact of business exits.</p> <p>Free cash flow and free cash flow excluding business exits are measures used to show how effective the Group is at generating cash and the Board believes they are useful for investors and management to measure whether the Group is generating sufficient cash flow to fund operations, capital expenditure, non-lease debt obligations, and dividends.</p> <p>A reconciliation of net cash flows from operating activities to free cash flow and free cash flow excluding business exits and a reconciliation of free cash flow to free cash flow excluding business exits are provided in note 2.9.2.</p>												

## I Additional information *continued*

### Section 8: Additional information *continued*

#### 8.2 Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation																																																									
<b>Cash flows and net debt continued</b>																																																											
<b>Operating cash flow and operating cash conversion</b>	<b>No direct equivalent</b>	<p>Calculated as operating cash flow excluding business exits divided by adjusted EBITDA.</p> <p>The Board believes that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions</p>																																																									
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<b>Available liquidity</b>	<b>No direct equivalent</b>	<p>Calculated as the sum of any undrawn committed facilities and the net cash, cash equivalents net of overdrafts, less any restricted cash. Restricted cash is defined as any cash required to be held under FCA regulations, cash held in foreign bank accounts, and cash represented by non-controlling interests.</p>																																																									
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<b>Net financial debt (pre-IFRS 16)</b>	<b>No direct equivalent</b>	<p>Calculated as the sum of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes; other finance; and deferred consideration.</p> <p>The Board believes that this measure of net debt allows investors to see the Group's net debt position excluding its IFRS 16 lease liabilities.</p>																																																									
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