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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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.

This Annual Report, other corporate publications, our latest news and announcements, and more information about us is available on our website, www.capita.com

CEO's review

Read our CEO review on pages 8 to 13

Responsible business

Read more about our approach to being a responsible business on pages 29 to 56

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[1]

£56.5m

(2022: £49.8m)

Free cash flow[3]

£(154.9)m

(2022: £(31.5)m)

Adjusted revenue[1]

£2,642.1m

(2022: £2,609.0m)

Reported basic earnings/(loss) per share

(10.60)p

(2022: 4.47p)

Adjusted basic earnings per share[2]

1.70p

(2022: 2.64p)

Free cash flow before the impact of business exits[3]

£(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.

2023 non-financial highlights and KPIs

Employee net promoter score

-4pts

(2022: -9pts)

Customer net promoter score[4]

+16pts

(2022: +26pts)

Suppliers paid within 60 days[5]

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[7] (location-based)

37%

(2022: 47%)

CO_2 emissions (location-based) Scope 1, 2 and 3 (tCO_2e)

40,456

(2022: 39,287)

Voluntary employee turnover

24%

(2022: 30%)

Diversity: ethnicity[6]

37:22%

(2022: 37:24%)

Reduction in carbon footprint[8] (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.

Capita Public Service

2023 progress

- Strong delivery in our chosen market verticals
- Focus on partnering and customer centricity
- Maintained our operational delivery with average KPI performance of 94%
- Won total contract value of £1,924m, an increase of 57% from 2022
- Established second client advisory board in Central Government vertical
- Customer net promoter score +27

2024 strategic priorities

- Maintaining our consistent delivery to clients
- Partnering effectively with customers
- Building on growth momentum
- Improving margin achievement with efficient delivery
- Right-sizing of business and reduction in overhead costs

Adjusted revenue[1] contribution:

55%

2022: 56%

1. Refer to alternative performance measures (APMs) on pages 230 to 233.

Key growth levers

Technology and digital innovation

Effective customer delivery and strong relationships

Talent and market expertise

Capita Group

Our purpose

Individual structural growth markets

Capita Public Service

Capita Experience

Public Service is the number one[2] strategic supplier of software and IT services (SITS) and business process services (BPS) to the UK Government.

2. TechMarketView

Experience is one of Europe's leading customer experience businesses. It is the market leader in the UK[3] and ranks fourth in Germany[3] and Europe[3].

3. NelsonHall

Group governance, support services and risk management

Capita Experience

2023 progress

- Experience is recognised by Everest Group at the top of the Major Contenders group in their 2023 EMEA Customer Experience Management Services PEAK Matrix
- Reduced annual voluntary employee attrition by 5%
- Operational delivery consistently high with average KPI performance of 94%, excluding the pensions administration business. 82% including pensions
- Won total contract value of £1,112m, a decrease of 19% from 2022
- Customer net promoter score +10

2024 strategic priorities

- Right-sizing cost base
- Expanding our geographical footprint in Europe
- Continuing to partner with technology providers to deliver effective IT transformations for customers

Adjusted revenue[1] contribution:

45%

2022: 44%

1. Refer to alternative performance measures (APMs) on pages 230 to 233.

Investment case

Driving change to create value

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

How we will create value

We will create value by embracing change through:

1. Clear growth strategy; defining and refining Capita's formula for winning in its markets
2. Ensuring we deliver efficiently and effectively for our customers each and every time
3. Leveraging our expertise and relationships with our broad, deep and loyal customer base
4. Capturing greater economic value from the business
5. Embracing digital solutions and turbocharging relationships with technology partners
6. Rallying our leadership team, motivating our colleagues and resetting our culture
7. Continuing our disciplined approach to corporate governance and risk management
8. Strengthening commitment to achieve sustainable positive free cash flow

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

Better stakeholder outcomes

Our people
by providing an environment in which they can thrive and develop.

Investors
by delivering sustainable positive free cash flow and improving returns.

Clients and customers
by delivering efficient and effective solutions, transforming businesses and services through expertise and technology.

Suppliers and partners
by treating them fairly and working in partnership to deliver.

Society
by acting as a responsible business for the communities we serve.

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

How we measure outcomes

Employee net promoter score (eNPS)
-4
2022: -9

Free cash flow before the impact of business exits
£(115.5)m
2022: £(42.4)m

Customer net promoter score (cNPS)
+16
2022: +26*

Supplier payment compliance in 2023
99%
2022: 99%

Penta score 90-day average at 31 December 2023
+37
2022: +60

* 2022 comparative restated to exclude the disposed of Portfolio businesses

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[1] growth and a step up in adjusted profit before tax[1], 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.

"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

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.

- 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 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.

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.

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[1] 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[1] 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[1,2], 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[1,2] 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[1] 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.

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[2]

£15bn

European customer experience market[3]

$33bn

Market growth across both markets per annum

c.4%

Number one[2] 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[3] and ranks fourth in Germany[3] and Europe[3]

3. NelsonHall

SILVER 2023 ecovadis Sustainability Rating

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

CDP DISCLOSURE INSIGHT ACTION A LIST 2023 CLIMATE

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

Capita Public Service

Public Service is the number one[2] 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[1] (£m)	**1,458.6**	1,454.8	0.3
Adjusted operating profit[1] (£m)	**89.3**	93.7	(4.7)
Adjusted operating margin[1] (%)	**6.1**	6.4	
Adjusted EBITDA[1] (£m)	**133.3**	131.9	1.1
Operating cash flow excluding business exits[1] (£m)	**107.1**	102.3	4.7
Order book (£m)	**3,546.0**	2,985.0	18.8
Total contract value secured (£m)	**1,923.8**	1,222.5	57.4

1. Refer to APMs on pages 230 to 233.
2. TechMarketView.
3. Revenue by market refers to the 2023 business split.

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[1]

£1,458.6m

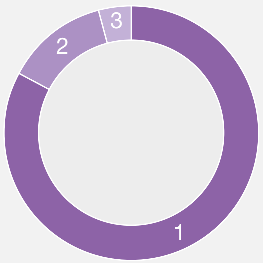
(2022: £1,454.8m)

Adjusted operating profit[1]

£89.3m

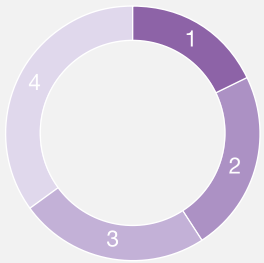
(2022: £93.7m)

Adjusted revenue by type



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

Revenue by market[3]



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

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[2], growing at approximately 4%[2] 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.

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[1] 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[1] 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[1] 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[4] and ranks fourth in Germany[4] and Europe[4]

Financial performance

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

£1,183.5m

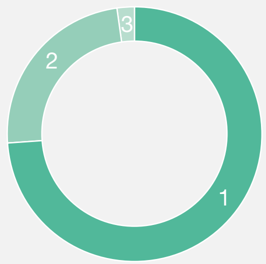
(2022: £1,154.2m)

Adjusted operating profit[1]

£50.9m

(2022: £35.7m)

Adjusted revenue by type



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

Revenue by market

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

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[4] 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%[4] 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.

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[1] 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[1] 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[1] 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.

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[1] 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[1] 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[1] reduced to 1.70p (2022: 2.64p) as the increase in adjusted profit before tax[1] was offset by an increase in the adjusted current tax charge to £30.4m (2022: £6.4m). The adjusted current tax charge 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[1] (£6.7m) and lower goodwill impairment (2023: £42.2m; 2022: £169.0m).

Summary of financial performance

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

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.

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[1] 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[1,2] 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[1,2] reflects the above reduction in free cash flow excluding business exits[1,2], 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[1].

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.

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, 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[1] and free cash flow excluding business exits[1] 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[1] growth was 1.3% year-on-year. The adjusted revenue[1] 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 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[1] increased in 2023. The adjusted profit before tax[1] 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.

Adjusted revenue[1] bridge by division

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

Adjusted profit before tax[1] bridge by division

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

1. Refer to APMs on pages 230 to 233.

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[1] 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[1] 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[1,2] 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[1] and adjusted profit before tax[1] 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

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.

Adjusted operating profit to free cash flow excluding business exits[1,2]

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

Adjusted[1] to reported results bridge

	Operating (loss)/profit		(Loss)/profit before tax	
	2023 £m	2022 £m	2023 £m	2022 £m
Adjusted[1]	**106.5**	78.0	**56.5**	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)**	–
Reported	**(52.0)**	(79.6)	**(106.6)**	61.4

- £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[1]. 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.

Free cash flow to free cash flow excluding business exits

Free cash flow[1,2] was lower than free cash flow excluding business exits[1,2] 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[1] (both pre-IFRS 16) ratio of 1.2x. Over the medium term the Group is targeting a net financial debt to adjusted EBITDA[1] (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[1].

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.

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.

Free cash flow[1,2] to free cash flow excluding business exits[1]

	2023 £m	2022 £m
Free cash flow[1,2]	**(154.9)**	(31.5)
Business exits	**23.1**	(19.5)
Pension deficit contributions triggered by disposals	**16.3**	8.6
Free cash flow excluding business exits[1,2]	**(115.5)**	(42.4)

Net debt

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

Available liquidity[1]

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

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.

* see page 37 for further information on SafetyNet
** see page 36 for further information on gender and ethnicity representation

2023 performance highlights

Wellbeing index (2022: 71%)
72%

Of our senior leaders are women (2022: 26%)**
40%

Inclusion index (2022: 74%)
77%

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

Colleagues who feel they can be themselves at work (2022: 83%)
84%

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

Colleagues supported through the SafetyNet* process (2022: 219)
246

Volunteering hours logged (2022: 7,800)
21,000

Colleagues feel safe at work (2022: 90%)
90%

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

Capita plc awarded
EcoVadis Silver award

Cabinet Office compliance in the modern slavery assessment tool
96%

Payroll giving (2022: £180,000)
£141,000

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

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

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_2e)[1]	**+1,169**	(4,322)

1. Units have been corrected to tCO_2e from prior reporting in million gross tonnes.

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

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

Goal 3:

Ensure healthy lives and promote well-being for all at all ages

We prioritise the wellbeing, safety, and health of our workforce

Goal 5:

Achieve gender equality and empower all women and girls

Goal 10:

Reduce inequality within and among countries

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

Goal 8:

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

We operate as a responsible, ethical business and continuously strive to create a great in-work experience for all our people

Goal 13:

Take urgent action to combat climate change and its impact

We are tackling climate change, reducing our environmental impact, and working with our clients and suppliers to help them do the same

How we support realisation of these goals

Goal 3

1. We promote wellbeing, health and safety throughout our policies and standards
2. We keep our employees safe and healthy at work
3. We have comprehensive safeguarding standards and procedures
4. We continuously work to understand, support and improve the wellbeing of our global workforce
5. We offer occupational health to all employees as required, and provide targeted health support for employees in high-risk business areas
6. We offer an employee assistance programme or similar for all our employees globally
7. We are committed to virtual first and flexible work wherever possible

For more information about our workforce practices on wellbeing, safety and health, see page 37

Goals 5 and 10

1. We promote inclusion, diversity and equity throughout our policies and standards
2. We are committed to our recruitment, retention and progression action plan, which includes:
    a. Licence to hire – inclusive recruitment training
    b. Internal first policy – vacancies advertised internally initially to focus on internal growth
    c. Members of the Moving Ahead programme
    d. Mutual mentoring programmes for female and Black, minority ethnic colleagues
    e. RISE (reduce inequality and strive for equality) development programmes
3. We aim to increase gender balance in leadership, senior level roles and across our organisation
4. We provide access to an independent Speak Up process to raise a concern
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

For more information about our commitment to people, see pages 32 to 37 and our gender and ethnicity pay gap report

Goal 8

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
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
3. We operate with fiscal responsibility, maintaining appropriate debt levels
4. We are proactive in the prevention of bribery, corruption, fraud tax evasion and anticompetitive practice
5. We perform consistently against recognised ESG metrics, verified by accreditations such as EcoVadis, the Dow Jones Sustainability Indices and Sustainalytics
6. We listen to employees' views, and act on their feedback, aiming to create a consistently great employee experience for everyone
7. We work with our employee network groups to evolve and adapt our policies, procedures and standards to be as inclusive as possible
8. We operate on an internal-first talent model, aiming to grow our own people, build skills and create great careers

For more information about our commitment to growth and people, see pages 32 to 37 and 43 and 44

Goal 13

1. We promote climate change mitigation and environmental matters throughout our policies and standards
2. We engage with our suppliers through CDP supply chain membership, and ask them to disclose to CDP and set science-based targets
3. We work with our clients to drive decarbonisation and help them to achieve their net zero goals
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
5. We are accelerating the move to hybrid and electric vehicles with supporting infrastructure
6. We are committed to virtual first and flexible working wherever possible
7. We have introduced incentives, linked to net zero for our executives and management
8. As part of our business review process, we report quarterly on carbon emissions against target at divisional level

For more information about our work to fight climate change, see pages 40 to 42

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

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

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

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%.

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		
Male	61	59%
Female	41	◊ 40%
Not specified/prefer not to disclose	1	1%

Gender balance of total workforce at 31 December 2023

Gender		
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.

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.

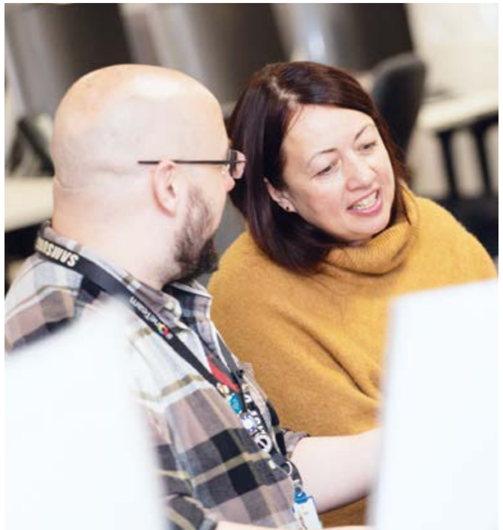
We also have employee assistance programmes or similar support services available to all colleagues globally, which provide access to counselling and online resources.

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

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 means 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

ARMED FORCES COVENANT
EMPLOYER RECOGNITION SCHEME
GOLD AWARD

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_2 equivalent (CO_2e) 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_2e 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.

GHG emissions (tCO_2e) 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
Energy used to calculate emissions (kWh)										
Gas and fuel	Energy Bureau, UK est energy, FSC burn, int. est energy, Capita Europe	58,451,965	1,276,761	**59,728,726**	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	**76,550,966**	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	**9,484,624**	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	**145,764,316**	136,585,947	21,685,038	158,270,986	170,854,338	30,511,758	201,366,097
% of total energy used		87%	13%	**100%**	86%	14%	100%	85%	15%	100%
Emissions from combustion of gas and fuel for heating tCO_2e (Scope 1)	Energy Bureau, Capita Europe	10,373	246	**10,619**	9,281	405	9,686	11,620	320	11,941
Emissions from combustion of fuel in company vehicles tCO_2e (Scope 1)	Fleet, FSC, fleet Germany, India, South Africa	1,224	63	**1,287**	1,851	67	1,918	1,845	71	1,916
Emissions from fugitive refrigerant gas tCO_2e (Scope 1)	Fugitive refrigerant gas	339	2	**341**	445	0	445	1,466	0	1,466
Emissions from purchased district heat tCO_2e (Scope 2)	Energy Bureau, Capita Europe	30	68	**98**	34	264	298	40	157	198
Emissions from purchased electricity (location based) tCO_2e (Scope 2)	Energy Bureau, UK est energy, int. est energy, Capita Europe, South Africa, India	12,553	8,714	**21,267**	12,827	8,012	20,839	23,891	6,853	30,744
Emissions from purchased electricity (market based) tCO_2e (Scope 2)	Energy Bureau	1,044	2,411	**3,455**	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_2e (Scope 3)	SAP, Agiito	5,475	1,369	**6,844**	4,857	1,244	6,101	3,860	640	4,500
Total gross tCO_2e Scope 1 and Scope 2 (location based)		24,519	9,091	**33,611**	24,438	8,748	33,186	38,863	7,401	46,264
Total gross tCO_2e emissions (location based)		29,995	10,460	**40,455**	29,294	9,992	39,287	42,722	8,042	50,763.93
Total gross tCO_2e emissions (market based)		18,486	4,158	**22,644**	18,680	3,552	22,233	29,119	9,163	38,282.35
Intensity ratio: gross Scope 1 and 2 tCO_2e (location based) per £1m turnover		8.1	3.0	**11.2**	8.1	2.9	11.0	10.0	2.3	12.3
Intensity ratio: gross Scope 1 and 2 tCO_2e (location based) per headcount		0.56	0.21	**0.77**	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_2e using Gov.UK and Defra conversion tables. Mileage provided has been converted into tCO_2e 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_2e 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.

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_2e 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
Total	456.7

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_2 equivalent (tCO_2e), an absolute measure, tonnes CO_2 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.

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_2e)	**12,247***	12,049*	15,021*	18,980*
Scope 2 (tCO_2e) (location-based)	**21,365***	21,137*	24,088*	28,359*
Scope 2 (tCO_2e) (market-based)	**3,553***	4,083*	10,328*	23,526*
Scope 3 (tCO_2e) (business travel and waste)	**6,844***	6,101*	4,500*	7,881*
Total gross tonnes of CO_2e (location-based)	**40,456**	39,287	43,609	55,220
Total gross tonnes of CO_2e (market-based)	**22,644**	22,233	29,848	50,387
Total gross tonnes of CO_2e/£1m revenue (location-based)	**13.5**	**13.03**	**13.70**	**16.60**
Total gross tonnes of CO_2e/headcount (location-based)	**0.92**	**0.79**	**0.73**	**0.85**

Table of progress against SBTi verified short-term targets

	2023 actual	2023 target	2030 target
Scope 1 (tCO_2e)	**12,247**	15,775	10,201
Scope 2 (tCO_2e) (market-based)	**3,553**	23,006	14,876
Scope 3 (tCO_2e) (business travel and waste)	**6,844**	25,578	16,540
Progress against SBTi verified short-term engagement target	2023 actual	2023 target	2025 target
Scope 3 supply chain spend covered by science-based targets %	**54%**	33%	50%
Other metrics	**2023**	2022	2021
100% renewable power progress (as % of total power)	**90%**	85%	80%
Transition from internal combustion to low emission vehicles:			
Diesel	**43%**	47%	62%
Hybrid electric	**52%**	48%	32%
Pure electric	**4%**	4%	5%
Average CO_2e	**96g/km**	96g/km	96g/km
Fleet vehicle energy source			

Notes:

Total gross tonnes of CO_2e/£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[1,2]

£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). 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.

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.

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.

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

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.

a. The likely consequences of any decision in the long term.
b. The interests of the Company's employees.
c. The need to foster business relationships with suppliers, clients and others.
d. The impact of the Company's operations on the community and the environment.
e. The desirability of the Company maintaining a reputation for high standards of business conduct.
f. 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.

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.

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.

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
Finance: • 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. • In July 2023, the Board approved the issuance of £101.9m equivalent of new US private placement loan notes. • In H2 2023, the Company settled £30.3m of Euro private placement loan notes which were originally due in 2027. • During 2023, the Board approved the remaining disposals of the companies within the Portfolio division.	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.	**All our stakeholders:** the strengthening of the Group's funding position has made Capita a more sustainable business which is in the interests of all stakeholders.	Chief Executive Officer's review on pages 8 to 12. Chief Financial Officer's report on pages 22 to 28.
Governance – Board changes: Approving the appointment of Adolfo Hernandez as Chief Executive Officer.	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.	**All our stakeholders:** 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.	Nomination Committee report on pages 79 to 83.
Significant cost reduction programme: 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.	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.	**Colleagues:** 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. **All our stakeholders:** 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.	Chief Executive Officer's review on page 9. Chief Financial Officer's report on pages 22 to 28.
Cyber incident: 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.	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. The acceleration of the investment and the expected improvement in Capita's cyber security maturity will help underpin Capita's long-term success.	**All our stakeholders:** the accelerated improvement in Capita's cyber security maturity and the annual audit will be of benefit to all stakeholders.	Chairman's statement on page 7. Chief Executive Officer's review on page 10.
Capital allocation policy: during the year the Board considered its capital allocation policy.	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.	**Shareholders:** the Board is mindful that shareholders have not yet seen improved returns and financial benefit (including shareholder distributions) from the strengthened Group. **All our stakeholders:** the Board ensures that its capital allocation policy is appropriate for the Company's financial position.	Chief Financial Officer's review on page 27.

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?
Environmental matters	• Health, safety and environmental policy (E) • Environmental standard (I) • Supplier Charter (E) • Procurement policy (E) • Procurement standard (I) • Travel and expenses policy (I) • Risk management policy (E)	• Responsible business: fighting climate change pages 40 to 42 • Task Force on Climate-related Financial Disclosures (TCFD), pages 50 to 56 • Streamlined Energy and Carbon Reporting Regulation (SECR), page 41 • Responsible business: operating responsibly – supplier engagement page 43
Employees	• Code of conduct (E) • Health, safety and environmental policy (E) • Health, safety and environmental standard (I) • Diversity and inclusion policy (E) • Wellbeing policy (E) • Employee handbook (I)	• Our people section pages 32 to 37 • Responsible business: building an inclusive workplace pages 35 and 36 • Responsible business: diversity data page 36
Human rights	• Human rights policy (E) • Supplier charter (E) • Modern slavery statement (E) • Information and cyber security policy (E) • Privacy policy (E) • Employment screening policy (I) • Procurement policy (E) • Speak Up policy (E) • Safeguarding policy (E)	• Responsible business: operating responsibly – supplier engagement page 43 • Responsible business: community – tackling economic inequalities pages 38 and 39 • Responsible business: operating responsibly – upholding human rights page 44
Social matters	• Community and charity policy (E) • Community and charity standard (I) • Volunteering FAQ (I) • Matched funding FAQ (I) • Fundraising FAQ (I)	• Responsible business: community pages 38 and 39
Anti-corruption and anti-bribery	• Code of Conduct: Anti-bribery and corruption policy (E) • Gifts and hospitality standard (E) • Financial crime policy (E) • Conflict of interest policy (E)	• Responsible business: targeting bribery and corruption page 44
Due diligence and outcome	• Risk management framework • Annual internal audit plan • Risk register • Audit and Risk Committee report	• Risk management framework pages 57 and 58 • Audit and Risk Committee report pages 87 to 95
Business model		• Business model page 4
Non-financial KPIs		• Non-financial KPIs page 30 • Responsible business pages 29 to 56
Risk management		• Risk management and internal control pages 57 to 63

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.

Climate-related responsibilities and decision making governance structure

Board

Capita Board

Responsibility: promoting long-term sustainable success, generating value for shareholders and contributing to wider society. The Board provides direction to the Executive Team by setting the organisation's risk appetite and identifying the principal risks facing the organisation, including ESG risk which incorporates climate change.

2023 actions and discussions: climate issues are raised to the Board on an ad-hoc basis as they arise resulting in multiple discussions throughout the year. Examples include the sign-off scope of work to develop a climate transition plan at Capita in response to emerging guidance from the UK Transition Plan Taskforce.

Board Committees

Audit and Risk Committee

Responsibility: assists in managing risk systems.

2023 actions and discussions: review and approve the 2023 TCFD disclosure on an annual basis. Half-yearly review of risks and controls.

ESG Committee

Responsibility: strategic oversight and accountability for climate-related issues, with membership from across functions, chaired by the Chairman of the Board.

2023 actions and discussions: meeting on a regular basis, this year the Committee signed-off on developing a UK Transition Plan Taskforce-aligned transition plan, and sustainable procurement plan to drive climate action in supply chain.

Remuneration Committee

Responsibility: setting policies for executive pay and incentives and approving changes to existing remuneration plans, including climate change as a metric.

2023 actions and discussions: Capita's climate targets remain part of its strategic remuneration metrics and objectives. Targets, performance and objectives are reviewed annually.

Executive

Executive Team

Responsibility: accountable for implementing and operating effective governance, risk management and internal controls. This includes monitoring performance in line with climate change targets and objectives.

2023 actions and discussions: quarterly review of progress against each business' net zero plan.

Divisional & Group management

Management positions with key responsibilities

- **Chief Executive Officer:** overall executive accountability for climate-related risks and opportunities and ensuring that climate issues are appropriately considered at Board and Executive Team level.
- **Divisional Heads of Risk:** adopt Group-wide risk policies, identify climate-related risks for their division. Accountable for risk management, governance and control, quarterly reporting to the Executive Team.
- **Chief General Counsel:** ownership of climate change within the ESG principal risk and managing development of Capita's net zero strategy. Work closely with the Group's Risk and Compliance functions, particularly around the ESG principal risk.

2023 actions and discussions: management positions are responsible for providing regular updates to the Executive Team and developing processes such as reporting against net zero targets through quarterly business review. Defining ownership of climate issues through environment standard.

✓ Procurement supports the review and measurement of emissions and engagement with key suppliers.

✓ Finance supports the quantification and reporting of risks and opportunities as part of Capita's climate risk and opportunity assessment.

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.

Phase 1: 2021	Phase 2: 2022	Phase 3: 2023	Ongoing
Climate risk and opportunity (R+O) identification and assessment. • Identify range of climate R+Os and impacts. • Score R+Os across climate scenarios and time horizons.	Forward-looking financial impact assessment of select climate issues. • Select key risks for quantification Identify range of climate R+Os and impacts. • Evaluate potential future financial impacts.	Deep-dive into a key risk and further exploration of mitigating controls. • Business engagement on risk drivers and impacts, specific focus on increasing climate requirements in bids.	Continued review and update of analysis to ensure it is reflective of the latest climate science and business activities. This includes a review of identified issues, assessment processes and controls.

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
Storyline	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.
Temperature outcome	1.4 – 1.6°C	1.4 – 1.6°C	2.6 – 4°C+
Scenario source/model	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.

Climate risks and opportunities table

	Climate risks	Potential financial business implications	Summary of climate scenario analysis	Management responses and opportunities
Transition risks and opportunities	**Market shift for low-carbon solutions** and lack of skills required to respond. • Increasing requests and demands for low-carbon products and services which are beyond typical services currently provided by Capita.	• Loss of revenue and market share if Capita is not able to capture low-carbon opportunities. • Investment required to develop strategic capabilities and upskilling of workforce. • Loss of profit margins if Capita must outsource elements of service delivery for low-carbon solutions where we do not have capabilities.	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.	• Build strategic focus on growing service offerings of consulting and technical low-carbon solutions. • Raise awareness and capabilities across Capita to respond more quickly and easily to increasing demand. **Opportunity:** To grow our low-carbon offerings and access new markets to raise revenues.
	Net zero transition increases capex requirements for decarbonisation as well as higher opex related to carbon-generating activities. • Major investment may be required to decarbonise business operations, eg through upgrading boilers. • Internal resources required to manage and mitigate climate impacts. • Introduction and expansion of carbon pricing mechanisms to increase the cost of carbon and incentivise the shift to low-carbon operations.	• High upfront investment costs required to decarbonise operations across the value chain. • Resource required to support value chain engagement to drive climate action across the value chain. • Increased direct costs associated with carbon taxation. • Increased indirect costs associated with energy procurement or passed through from suppliers.	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.	• 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. • 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. • Increase flexibility of property portfolio to enable more agile response to changing energy and transition demands. **Opportunity:** 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.
	Stakeholder expectations for climate action could result in reputational damage and financial implications if seen to be insufficiently responding to climate action or reporting requirements. • Increasing customer demand to meet climate-related requirements in bids. • Legislation & compliance requirements covering a range of environmental issues. • Increasing stakeholder concern around the sufficiency of sustainability action.	• Increased exposure to financial penalties, additional costs, or exclusion from business activity if not meeting customer or jurisdictional requirements. • Potential loss of opportunities if unable to respond effectively to climate-related bid requirements. • Loss of market share if competitors gain competitive advantage from more ambitious climate action. • Risk of losing top talent and investment if not seen to be taking sufficient action.	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.	• Raise awareness and continue to strengthen environmental credentials to better respond to customer requests and align with the best practice of reporting mandates. • Continual monitoring, with defined accountability for net zero achievement cascaded through the business. **Opportunity:** 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.
Physical risk	**Physical climate risk** results in disruption across the value chain. • Operational disruption of owned, leased and supplier assets if impacted by climate events, which are likely to increase in frequency and severity.	• Increased frequency and cost of building repairs, and/or adaptation measures. • Increased cost of cooling data centres, due to warmer temperatures and water scarcity. • Increased response costs to respond to issues like power outages, water sanitation etc, which are affected by climate impacts on local infrastructure.	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.	• 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. • Conduct in-depth risk assessments to understand the vulnerability to different climate variables so controls are effective. • Assess multiple physical climate hazards at key sites to strengthen understanding and response to physical risks. **Opportunity:** by carrying out an expanded assessment of physical hazards, Capita can limit its exposure to potential future costs linked with physical climate events.

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)

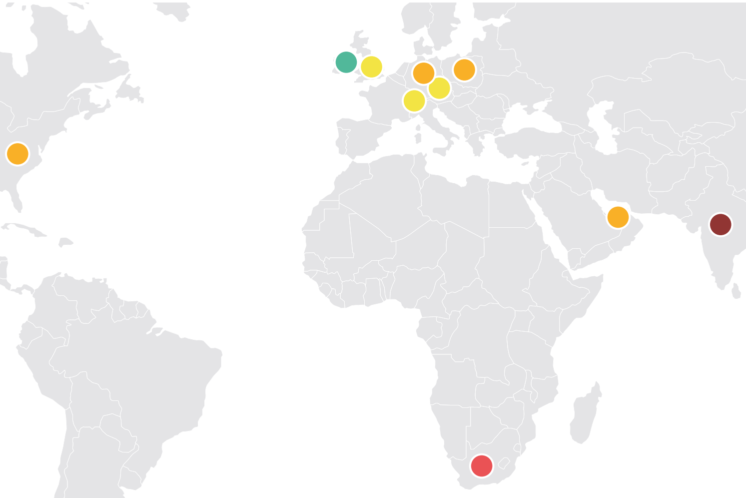
Water stress at key operational sites causes disruption to operations and higher costs for water supply and treatment.

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.



Overall water stress vulnerability scores per each region

- Significant impact
- Major impact
- Moderate impact
- Minor impact
- No immediate impact

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?

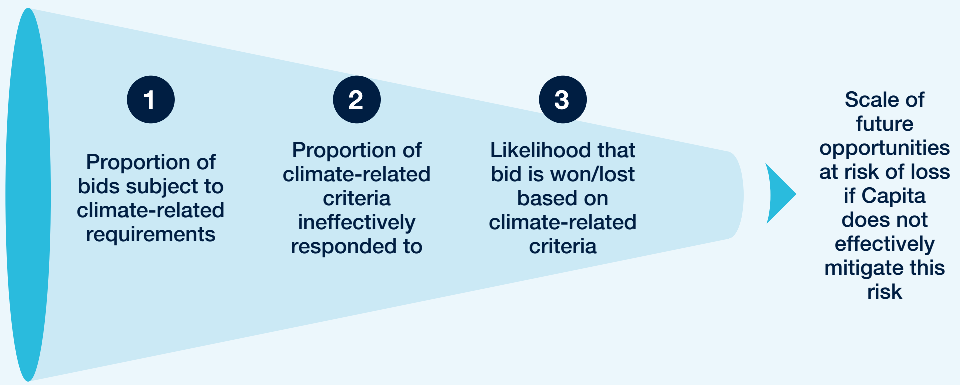
- Capita's bid process for new service contracts is increasingly subject to environmental and specifically climate-related requirements as part of the scoring process determining bid success. This applies both to public and private sector bids.
- In future, given the fast-changing nature of these requirements 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



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.

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.**

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.

Risk management and internal control *continued*

Risk governance structure and assurance lines

3

Third line of defence

- Internal Audit reports directly to the Board and ARC on the effectiveness of governance, internal control and risk management, through an independent risk-based assurance programme
- Helps safeguard the first two lines and recommend improvements as the risk profile adapts and changes

2

Second line of defence

- Provides the policies, framework, tools, techniques and support to empower risk and internal control to be managed by the first line
- Establishes monitoring controls, provides oversight and regularly evaluates the effectiveness of the first line
- Promotes consistency of the key objectives and management of risk across the Group

1

First line of defence

- Includes senior leadership and employees who, as part of their core roles, identify and manage key risks
- Equipped with the necessary skills, knowledge and tools to operate effectively and have the relevant authority levels to embed the policies and procedures across the internal controls and risk management frameworks

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.

Risk management and internal control *continued*

Risk	Executive risk owner(s)	Risk category	Risk trend
1. Profitable growth	Divisional Executive Officers (EOs)	Strategic	Stable residual risk position. We continue to bid for and win new contracts on appropriate commercial terms.
2. Contract performance	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.
3. Innovation	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.
4. People attraction and retention	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.
5. Financial stability	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.
6. Cyber security	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.
7. ESG (environmental, social and governance)	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.
8. Safety and health	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.
9. Data governance and data privacy	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

Risk management and internal control *continued*

Principal risk	Key risk drivers	How we manage the risk
2. Contract performance **Deliver services to clients in line with contractual and legal obligations.** **Executive owner:** Divisional EOs	• Ineffective contract management • Lack of the capacity or capability to deliver contractual expectations • Ineffective service mobilisation • Inadequate supplier management • Aged, unstable or unreliable infrastructure	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. **Mitigating actions** • Contract management framework and performance reviews • Sales governance • Robust lifecycle management and programme delivery • Supplier management framework • Resilience and recovery plans • Internal and external assurance • Effective operational business resilience and recovery plans **Future mitigation** • Contract monitoring and assurance

Principal risk	Key risk drivers	How we manage the risk
3. Innovation **Innovate and develop new customer value propositions with speed and agility.** **Executive owner:** Divisional EOs Chief Technology Officer	• Lack of clear strategy and ownership for innovation • Lack of investment in new technology and capability • Non-alignment with technology trends and developments • Lack of capacity and/or skill sets to develop, scale and sell innovative solutions	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. 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. **Mitigating actions** • Divisional and client group strategy reviews • Digital steering group and investment committees • Intelligence hub which analyses market data and government policy which directly drives our strategy • Dedicated consulting capability to influence and align client solution requirements **Future mitigations** • Digital transformation strategy • Glidepath on the approach to innovation, both at divisional and Group level • Aligning with technology trends and client expectations • Develop innovative products and services delivering value addition to the client and their business • Investment in cloud and data analytics

Principal risk	Key risk drivers	How we manage the risk
4. People attraction and retention **Attract, develop, engage and retain the right talent.** **Executive owner:** Chief People Officer	• Development opportunities and career progression that do not meet the expectations of colleagues • Uncompetitive pay and benefits • External market factors effecting the availability of labour	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. **Mitigating actions** • Career path framework and succession process • Global reward framework • Global management and leadership academy, performance and development process • Monitor external labour market and trends • Employee engagement survey • Colleague performance reviews **Future mitigations** • Roll out remainder of the career path framework to enable employees to plan and develop their careers • Continue to roll out pay and reward framework across all countries to ensure that they are competitive • Complete design and implementation of leadership essentials programme • Continue to explore opportunities to utilise offshore capability
5. Financial stability **Maintain financial stability and achieve financial targets.** **Executive owner:** Chief Financial Officer	• Inaccurate (long and short-term) forecasting, business planning and connected cash flow volatility • Unexpected breach of debt covenants resulting in inability to drawdown facilities/ refinance as required • Restrictions in current pension and borrowing agreements hindering/preventing implementation of desired corporate strategy • Inefficient cost base • Significant unexpected event(s)	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. **Mitigating actions** • Contract review committee approval of key contracts, monitoring of major contract risks • Internal review and challenge of business plan and reforecasting during the year • Scenario modelling during business planning • Prospective monitoring of direct cash flow and covenant compliance • Existence of insurance mitigates some events • Ongoing reviews of business performance **Future mitigations** • Improve cash generation by delivering £60m of annualised cost savings from Q1 2024 • Target a further £100m of annualised efficiencies to be delivered by the middle of 2025 • Enhance the Group's cash forecasting and reporting processes

Risk management and internal control *continued*

Principal risk	Key risk drivers	How we manage the risk
6. Cyber security **Protect our systems, networks and programs from unauthorised use and access.** **Executive owner:** Chief Technology Officer	• Sub-optimal identify, protect, detect, respond and recover capability (Cybersecurity's Five Functions as defined by the National Institute of Science and Technology) • External threat (tech change, legal and regulatory including international, geopolitical landscape) • People (insider threat, capacity and capability, training and awareness) • Insufficient funding to improve and maintain security posture • Third party and partners' inadequate cyber and information security posture	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. **Mitigating actions** • Cyber security strategy and compliance assessment framework • Threat Intelligence function • Cyber training and awareness • Supplier information security due diligence process • Communication and education plan supported with mandatory training **Future mitigations** • Security design governance framework • Deliver against our National Institute of Science and Technology improvement plan • Deliver cyber security programme • Standardise and enhance our security toolset • Security operation centre improvement

Principal risk	Key risk drivers	How we manage the risk
7. ESG **Comply with regulatory and contractual requirements to drive a purpose driven organisation with the right focus on governance.** **Executive owners:** Chief General Counsel and Chief People Officer	• 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 • Inadequate monitoring, reporting and inability to fully understand all contractual obligations • Changing regulatory environment – eg new ESG reporting legislation	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. **Mitigating actions** • Responsible business principles, divisional action plans, divisional delivery and compliance, including annual external index ratings: EcoVadis, Dow Jones Sustainability Index, Sustainalytics • ESG governance process • Net zero governance • Supply chain management including due diligence • Human rights policies and procedures, including our modern slavery statement • Operational resilience and incident management **Future mitigations** • Develop divisional and functional net zero plans to monitor and manage emissions • Finalise and implement the responsible business principles • Develop and implement a plan to manage regulatory changes to ESG legislative environment • Improve the due diligence framework to meet the additional legislative requirements outside the UK • Develop a system/programme to measure compliance with supplier charter on an ongoing basis

Risk management and internal control *continued*

Principal risk	Key risk drivers	How we manage the risk
8. Safety and health **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.** **Executive owners:** Chief General Counsel and Divisional EOs	• Immature practical approach and lack of ownership and accountability across Capita • Inadequate HSE capability, capacity and structure • Inadequate incident and near miss reporting and analysis • Lack of standardised and reliable health data	As a responsible employer we are committed to the health, safety and wellbeing of our employees and the people we work with. **Mitigating actions** • Assurance programme for wellbeing, HSE, occupational health, and safeguarding • Pan-Capita HSE team reporting lines, structure, and capability/capacity review • Health data collection and analysis • Framework of safety and health policies, standards and processes including mandatory training • Accidents, incidents, near misses and hazards reporting along with divisional/Group incident analysis/investigation and lessons learned • Incident management in line with Group policies, standards and procedures **Future mitigations** • Expand proactive occupational health intervention programme in Capita UK • Reconfigure reporting lines, structure, and capacity of divisional HSE team
9. Data governance and data privacy **Manage our data effectively (both clients and Capita) as a strategic asset across the organisation.** **Executive owners:** Chief General Counsel and Chief Technology Officer	• Inconsistent data governance framework, practices or technology to manage data • Lack of awareness of regulatory (especially data privacy) obligations • Lack of understanding of what data we have, where it is stored and who owns it	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. **Mitigating actions** • Data privacy policies, standards, procedures and mandatory data privacy training **Future mitigations** • Implement data governance control framework • 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

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

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