# Corporate governance

Better outcomes

**Capita is committed to helping tackle climate change and recently set science-based carbon emissions reduction targets for the business to be achieved by 2030, in line with internationally agreed ambitions to limit global warming by 1.5°C.**

As a purpose-led responsible business, we are well underway in defining our pathway towards becoming net zero, and we support the UK Government's initiative on mandatory climate-related disclosures. For more detail see page 44.

# Chairman's report

"From the onset of the pandemic, all Board and committee meetings were successfully held remotely using video-conferencing technology."

**Sir Ian Powell**
Chairman

Transparency of listed company governance has become increasingly significant, especially given the need to operate through the pandemic in 2020. I am therefore pleased to introduce the corporate governance section of this Annual Report and present my introductory statement on Board governance during 2020.

## Board leadership

The directors of the Company in office at the date of this report are listed on pages 60 and 61. The only change to the Board during 2020 was the resignation of Patrick Butcher with effect from 16 November 2020 and the appointment on the same date of Gordon Boyd in his place as interim Chief Financial Officer while we recruit a permanent replacement.

Gillian Sheldon retired from the Board on 28 February 2021 after eight and a half years and was replaced as Senior Independent Director on 1 March 2021 by David Lowden who was appointed a non-executive director on 1 January 2021. We also appointed Neelam Dhawan, an experienced leader in the technology industry, to the Board as non-executive director, on 1 March 2021.

We are careful to ensure an appropriate balance of time commitments for each Board member. Directorships are reviewed twice a year and any proposed external appointment is considered carefully. With effect from 1 April 2021, Matthew Lester was appointed non-executive director of Intermediate Capital Group plc but, taking into account his non-executive portfolio, it was not considered by the Board to be excessive.

Baroness Lucy Neville-Rolfe was appointed director and chair of Crown Agents Limited, a not-for-profit international development company, with effect from 1 December 2020 and also stepped down as chairman of Assured Food Standards.

We remain committed to workforce engagement and highly value the engagement of our employee non-executive directors, Lyndsay Browne and Joseph Murphy, in Board discussions. We believe it is important to bring their contributions also into Board committee meetings hence the formal appointment during the year of Lyndsay to the Remuneration Committee and Joseph to the Audit and Risk Committee. We have also extended Joseph's two-year term as employee non-executive director by 12 months. We had intended to stagger the replacement of each employee non-executive director but, as a result of Covid-19, the Board felt it was more appropriate to postpone the selection process for 12 months.

## Board diversity

A diverse board broadens perspectives, enriches debate and ultimately improves the quality of decision making, and we actively seek to improve the diversity of the Board. I am pleased that we continue to exceed the 33% target for female representation and that our ethnic diversity has improved with the recent appointment of Neelam Dhawan. Further information on diversity in the Group is on page 46.

| | 31 Dec 2020 | 1 March 2021 | 11 May 2021 |
|---|---|---|---|
| Female representation | 36% | 33% | 36% |

## Reappointment of directors

Except for Andrew Williams, all members of the Board will stand for re-election (Gordon Boyd, David Lowden and Neelam Dhawan for election) at the annual general meeting (AGM) in May. Andrew has been a valued member of the Board for over six years, but has decided not to seek re-election at the AGM due to the ongoing significant time commitment required of him as CEO of Halma plc. All continuing Board members have received a formal performance evaluation which demonstrates that each director continues to be effective and committed to the role.

## Meeting schedule

The Board has a standing schedule to meet six times a year but holds further meetings as required. Board and committee meetings are structured around the Company's financial calendar. Agenda planning is undertaken in advance of every meeting to ensure an appropriate allocation of time to important topics. From the onset of the pandemic in March 2020, all Board and committee meetings were successfully held remotely using video-conferencing technology.

## Senior management

We review regularly the structure of our businesses and management to ensure they remain appropriate. The Executive Committee comprises the divisional executive officers and functional heads under the Chief Executive Officer's leadership. Further detail about the Executive Committee can be found on pages 61 and 62.

## Board effectiveness

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

**Leadership and purpose:** articulation of Capita's purpose on the inside front cover and pages 1-3.

**Division of responsibilities:** governance framework on page 67.

**Composition, succession and evaluation:** Nomination Committee report on page 78 and Board evaluation section below.

**Audit, risk and internal control:** Audit and Risk Committee report on page 80, and internal control and risk management statement on pages 50-57.

**Remuneration:** Remuneration Committee report on page 90.

### Culture

Company culture is a very important element of any business transformation. The Board receives regular reports on HR activities that enable it to monitor developments in the Group's culture and provide supportive challenge to management. The dashboard below is an aggregation of key measures informing the Board's assessment of culture, and further information on each of these, and the Group's approach to investing in and rewarding its workforce, is set out in the people and responsible business sections of the strategic report on pages 40 to 49.

| Metric | 2020 | 2019 |
|---|---|---|
| Movement in employee net promoter score (a measure of employee satisfaction) | +7 points | +14 points |
| People survey response rate (a measure of employee engagement) | 72% | 72% |
| Employee rating of manager commitments (a measure of how managers live our values and demonstrate our behaviours) | 82% | 81% |
| Voluntary turnover (a measure of employee commitment) | 20% | 23% |

### Board evaluation

Board evaluation is undertaken annually, with external evaluation every three years. The last external evaluation was undertaken in 2018 by Independent Board Evaluation. Key findings from the 2019 internal evaluation, together with actions taken in 2020 are set out below:

| Finding from 2019 evaluation | Action in 2020 |
|---|---|
| Remuneration framework – in conjunction with the Remuneration Committee allocate more time for ongoing consideration and review of framework for executive director and workforce remuneration. | During 2020 a review of the Long Term Incentive Plan for executive management was undertaken. A proposal was prepared and a consultation with shareholders commenced in December 2020. A new policy is being presented to shareholders at the forthcoming AGM. Appropriate time allocation was made to consider workforce remuneration in 2020. |
| Risk management framework – in conjunction with the Audit and Risk Committee have greater oversight of the developing framework for risk management. | The enterprise risk management framework was presented to the Audit and Risk Committee during 2020 and detailed presentations made to ensure even greater oversight. |

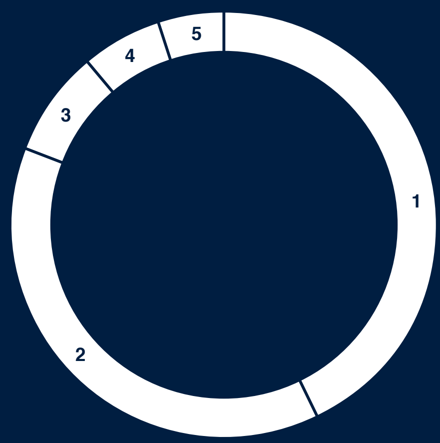
During 2020 an internal evaluation of the Board and its committees was undertaken by questionnaire and completed by each Board member. The results were collated by the Company Secretary for review by the Chairman and the findings were presented to the Board. Reports on committees were presented to the committee chairs and circulated to the Board.

The evaluation concluded that the Board had performed well during the pandemic. Continued delivery of the multi-year transformation programme, giving appropriate focus to key strategic issues to ensure milestones are met, is a principal Board objective in 2021.

At a meeting of the Board, the Directors discussed the evaluation and its findings, focusing on the following themes and objectives for 2021:

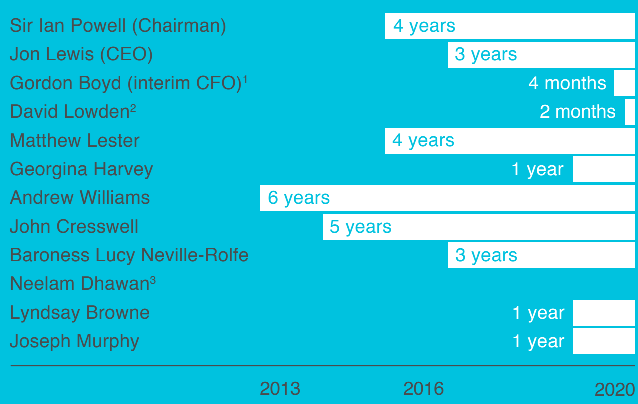
| Finding from 2020 evaluation | Proposed actions in 2021 |
|---|---|
| Transformation – ongoing development and delivery of the transformation strategy including balance sheet strength, reduction of operational complexity and reward incentives to reflect the objectives. | Continuation of the operational simplification and introduction of a reward structure (with the Remuneration Committee) for 2021 to support change and deliver transformation requirements. Proposals to address future balance sheet requirements would be a focus during 2021. |
| Risk management framework – with the Audit and Risk Committee review changing risk profiles with the transformation strategy. | Specific Board time would be allocated to further discuss risk profiles and frameworks, and ensure that these developed in line with the transformation. |

**Board time allocation** (%)




1 **43%** Executive reports (incl. Covid-19)
2 **38%** Strategy, transformation and growth
3 **8%** Governance (incl. board evaluation)
4 **6%** IR / brand / reputation
5 **5%** Full and half-year results

**Board directors: length of tenure**




1. Joined the Board on 16 November 2020
2. Joined the Board on 1 January 2021
3. Joined the Board on 1 March 2021

### Remuneration

We consulted major shareholders to understand their views on a proposed new restricted share plan for executive directors. Having received shareholder feedback, a revised remuneration policy will be put to shareholders for approval at the 2021 AGM. Further details can be found in the directors' remuneration report on page 90.

### Corporate governance and committee reports

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

**Sir Ian Powell**
Chairman
16 March 2021

## Chairman

### Sir Ian Powell
N

**Chairman**

**Appointed:** September 2016

**Independent at appointment:** Yes

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

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

## Executive Directors

### Jon Lewis

**Chief Executive Officer**

**Appointed:** December 2017

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

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

**External appointments:** board member of Equinor ASA.

### Gordon Boyd

**Chief Financial Officer (interim)**

**Appointed:** November 2020

**Key skills and experience:** a graduate of Edinburgh University, Gordon holds accountancy and treasury qualifications and an MBA. He has completed the advanced management programme at Harvard Business School and has more than 30 years' experience at major businesses, including as CFO of several FTSE 250 companies. He has significant experience of leading transformations at businesses including SSE, Infinis EDF, Drax Group and British Energy.

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

**External appointments:** none.

## Independent Non-Executive Directors

### David Lowden
ANR

**Senior Independent Director**

**Appointed:** January 2021

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

**Other current appointments:** Chair of PageGroup plc; Non-Executive Director and Senior Independent Director of Morgan Sindall Group plc.

### Matthew Lester
ANR

**Appointed:** March 2017

**Key skills and experience:** Matthew is a Chartered Accountant with over 20 years' experience in senior finance roles. He was Group Chief Financial Officer of Royal Mail plc from November 2010 to July 2017. Matthew served as Group Chief Financial Officer for ICAP plc from May 2006 to November 2010. Matthew was formerly a Non-Executive Director at Barclays plc and he has also held the position of Non-Executive Director and Chair of the Audit and Risk Committee at Man Group plc.

**Other current appointments:** Chairman of Kier Group plc.

### Georgina Harvey
ANR

**Appointed:** October 2019

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

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

### Key to committees

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

## Independent Non-Executive Directors

### John Cresswell ANR

**Appointed:** November 2015

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

**Other current appointments:** member of University of Liverpool Management School Advisory Board.

### Neelam Dhawan ANR

**Appointed:** March 2021

**Key skills and experience:** Neelam has 35 years' leadership experience in the IT industry, where she held senior positions in Hewlett-Packard, Microsoft , Compaq and IBM with responsibility for a wide range of areas including strategy, corporate development, software engineering and offshoring. She now advises multinationals on business and technology transformation and, until recently, was an advisor to IBM, helping them navigate through a business and talent transformation in India.

**Other current appointments:** Non-Executive Board Member of ICICI Bank Limited, Yatra Online Inc and Skylo Technologies Inc; member of Koninklijke Philips NV Supervisory Board.

### Baroness Lucy Neville-Rolfe DBE CMG ANR

**Appointed:** December 2017

**Key skills and experience:** Baroness Neville-Rolfe has been a member of the House of Lords since 2013, and served between 2014 and 2017 as a government minister in the business and culture departments, and as Commercial Secretary to the Treasury. She worked at Tesco plc from 1997 to 2013, serving on the board from 2006. She has a senior background in international retail, governance, legal and regulatory issues, and communications.

**Other current appointments:** Non-Executive Director of Secure Trust Bank plc, Thomson Reuters Founders Share Company, and Health Data Research UK; Chair of Crown Agents Limited and UK-ASEAN Business Council; and member of the House of Lords EU Select Committee.

## Employee Non-Executive Directors

### Andrew Williams ANR

**Appointed:** January 2015

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

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

### Lyndsay Browne R

**Appointed:** July 2019

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

**Other current appointments:** none.

### Joseph Murphy A

**Appointed:** July 2019

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

**Other current appointments:** none.

**Further information can be found on:**
**capita.com/our-company/about-capita**

## Directors who served during the year 2020

Patrick Butcher stepped down from his position as CFO and Executive Director on 16 November 2020.
Gillian Sheldon retired from the Board on 28 February 2021, after eight and a half years.

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

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

**Jon Lewis**

**Chief Executive Officer**

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

**Gordon Boyd**

**Chief Financial Officer (interim)**

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

**Ismail Amla**

**Chief Growth Officer**

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

**Chris Baker**

**Executive Officer, Software**

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

**Claire Chapman**

**Chief General Counsel**

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

**Aimie Chapple**

**Executive Officer, Customer Management**

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

**Mark Cook**

**Executive Officer, Technology Solutions**

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

**Garry Dryburgh**

**Chief Transformation Officer**

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

**Chantal Free**

**Executive Officer, People Solutions**

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

**Rupert Green**

**Chief Corporate Development Officer**

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

**Katja Hall**

**Director of Corporate Affairs**

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

**Will Serle**

**Chief People Officer**

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

**Andy Start**

**Executive Officer, Government Services**

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

**Jim Vincent**

**Executive Officer, Specialist Services**

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

# Committed to high standards of governance

## Corporate Governance Code

Capita plc and its subsidiaries (the Group) are committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2018 (the Code) applies to accounting periods beginning on or after 1 January 2019 and is available from the Financial Reporting Council's website, www.frc.org.uk. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in sections 1 to 5 of the Code except for provisions 24 and 32 (audit and remuneration committees respectively to comprise independent non-executive directors) as Joseph Murphy (member of the Audit and Risk Committee) and Lyndsay Browne (member of the Remuneration Committee) are both non-executive employee directors and therefore not considered independent. However, the Board felt that the value of the employee perspective brought by Lyndsay and Joseph to Board meetings should be replicated on those two committees. The formal appointment of each of them to the respective committee demonstrates the Group's commitment to employee engagement and the value of diversity of perspective being more important than a purely compliance-driven approach to the Code.

## Board changes during the year

On 16 November 2020, Gordon Boyd was appointed interim CFO in place of Patrick Butcher, who resigned with effect from the same date. Further information on Board changes is set out in the Nomination Committee report on page 78.

## Board changes after year-end

On 1 January 2021, David Lowden was appointed a Non-Executive Director and Senior Independent Director (SID) designate. David succeeded Gillian Sheldon as SID on 1 March 2021 following Gillian's planned retirement from the Board on 28 February 2021 after eight and a half years. In addition, Neelam Dhawan was appointed an additional non-executive director with effect from 1 March 2021.

## Board composition

At 31 December 2020, the Board comprised 11 directors, made up of the Chairman, CEO, CFO, six independent non-executive directors and two employee non-executive directors. Details of each director's experience are set out in the directors' biographies on pages 62 and 63.

Composition of the Board at 31 December 2020 and at the date of this report is shown in the tables opposite.

Board composition at 31 December 2020:

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

1. Independent on appointment in accordance with the Code.

Board composition at the date of this report:

| Executive directors | Independent non-executive directors | Non-executive employee directors |
|---|---|---|
| Jon Lewis | Sir Ian Powell[1] | Lyndsay Browne |
| Gordon Boyd | David Lowden | Joseph Murphy |
| | Matthew Lester | |
| | Georgina Harvey | |
| | John Cresswell | |
| | Andrew Williams | |
| | Baroness Lucy Neville-Rolfe | |
| | Neelam Dhawan | |

1. Independent on appointment in accordance with the Code.

## Board meetings and attendance

During 2020, the Board held six scheduled meetings. Additional ad hoc meetings are held as required. Attendance of the directors at Board and committee meetings is shown below; the maximum number of meetings a director could attend is in brackets.

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

1. Sir Ian Powell is not a member of the Audit and Risk or Remuneration committees, but was invited to, and attended, all meetings.
2. Gordon Boyd was appointed to and Patrick Butcher resigned from the Board on 16 November 2020.
3. Georgina Harvey was unable to attend a meeting of the Audit and Risk Committee due to a pre-existing commitment to attend a meeting of another company.
4. Baroness Lucy Neville-Rolfe was unable to attend a meeting of the Board and a meeting of the Remuneration Committee due to pre-existing commitments with the House of Lords and another company of which she is a director.

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

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

During 2020, the following formal director meetings took place:

- The Chairman held one-to-one individual review sessions with each executive director and each non-executive director.
- The non-executive directors met without executive directors.
- The non-executive directors met with just the CEO.
- The non-executive directors met without the Chairman, led by the senior independent director.

## Board leadership

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

Sir Ian as Chairman and Gillian Sheldon as Senior Independent Director have held meetings comprising solely the non-executive directors. Gillian also met with the non-executive directors without Sir Ian. Both Sir Ian and David Lowden (SID with effect from 1 March 2021) are available to meet with significant shareholders when requested.

## Governance and strategy

The Group recognises the contribution made by good governance to the Company's success and changes made at both Board and Executive Committee level demonstrate the importance of embedding the right structures with the right people to deliver the Group's strategy. The connection between governance and delivery of strategy is reflected throughout this Annual Report.

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

Section 172 of the Companies Act 2006 requires directors to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of shareholders as a whole. In doing so, the directors must have regard (among other matters) to:

- the likely consequences of any decision in the long term
- the interests of the Company's employees
- the need to foster business relationships with suppliers, clients and others
- the impact of the Company's operations on the community and the environment
- the desirability of the Company maintaining a reputation for high standards of business conduct
- the need to act fairly towards all shareholders of the Company.

The Board determines the strategic objectives and policies of the Group to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company directors' roles are set out opposite. Following presentations by executive and divisional management, and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

Stakeholder interests and the matters listed above are factored into all Board discussions and decisions. For more information, please refer to the section 172 statement on page 38.

## The Board

**Role of the Board**

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

**Matters reserved for the Board**

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

**Nomination Committee**

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

Read more on page 78

**Audit and Risk Committee**

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

Read more on page 80

**Remuneration Committee**

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

Read more on page 90

## Role of the directors

**Chairman**

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

**Senior independent director**

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

**Non-executive directors**

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

**Executive directors**

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

**Non-executive employee directors**

The non-executive employee directors are appointed from the workforce to contribute an employee perspective to Board discussions. This is a key element of the Board's approach to employee engagement.

## Board independence

Non-executive directors are required to be independent in character and judgement. All relationships that may interfere materially with this judgement are disclosed as required under the conflicts of interest policy (see page 70). The Board has determined that, except for the employee non-executive directors, all the non-executive directors who served during the year were independent and that, before and upon appointment as Chairman, Sir Ian Powell met the criteria of independence as outlined in the Code.

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

The Board believes that each of the non-executives has retained independence of character and judgement and has not formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group. The Board is satisfied that no conflict of interest exists for any director. This matter is a standing agenda item at Board meetings (see page 70).

## Matters reserved for the Board

A formal schedule of matters reserved for the Board has been adopted and these include, but are not limited to:

- **Strategy and management**, including responsibility for the overall leadership of the Group, setting the Group's purpose, values and strategy, and monitoring alignment with culture.
- **Structure and capital**, including changes relating to the Group's capital structure and major changes to the Group's corporate structure, including acquisitions and disposals, and changes to the Group's management and control structure.
- **Financial reporting**, including the approval of the Annual Report, half-yearly report, trading statements, preliminary announcement for the final results and dividend, treasury and accounting policies.
- **Internal controls**, ensuring that the Group manages risk effectively by approving its risk appetite and monitoring aggregate risk exposures.
- **Contracts**, including approval of all major capital projects and major investments, including the acquisition or disposal of interests of more than 3% in the voting shares of any company or the making of any takeover offer.
- **Ensuring satisfactory communication** with shareholders.
- **Board membership and other appointments**, including changes to the structure, size and composition of the Board, and succession planning for the Board and senior management.

## Board of directors' induction and training

Following appointment to the Board, all new directors receive an induction tailored to their individual requirements. They are encouraged to meet and be briefed on the roles of key people across the Group and have open access to all business areas and employees to build up an appropriate level of knowledge of the business that extends beyond formal papers and presentations to the Board. All directors have received an appropriate induction for their roles within Capita, including some or all of the following:

- The nature of the Group, its business, markets and relationships.
- Meetings with the external auditor, lawyers, brokers and relevant operational and functional senior management.
- Board procedures, including meeting protocols, committee activities and terms of reference, and matters reserved for the Board.
- Overviews of the business via monthly performance review reports.
- The Group approach to risk management.

Ongoing training and briefings are also given to all directors, including external courses as required.

A tailored induction programme was prepared for the interim CFO to ensure he was properly equipped to fulfil his role.

## Group Company Secretary

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

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

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

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

## Shareholder engagement

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

The investor relations team has day-to-day responsibility for managing investor communications and always acts in close consultation with the Board. All members of the Board, including the non-executive directors, receive a report on any significant discussions with shareholders and anonymous feedback that follows the annual and half-yearly presentations to investment analysts and institutional investors. Analyst reports concerning Capita are circulated to the directors and the Board is kept informed of changes in the share register.

## Principal decisions

| Principal decision* | Impact on long-term sustainable success | Stakeholder considerations | Further details |
|---|---|---|---|
| **Staff furlough, voluntary pay reductions and flexible working:** At the onset of Covid-19 and introduction of initial lockdown restrictions, 6% of staff were placed on furlough, higher paid staff, including the Board, took voluntary pay reductions for six months and c. 85% of the workforce moved rapidly into remote working. | **Culture**: Working culture has changed dramatically now that teams collaborate remotely using video-conferencing technology. The rapid move to remote working was welcomed by many staff but a challenge to others. Staff have reacted positively overall.<br><br>**Principal risks**: Furlough and temporary voluntary pay reductions were necessary to support the short-term financial position. Additional guidance and support were needed to address the increased risk to data, information and IT systems from remote working and the impact on employee wellbeing. | **Our people:** Decision would have high impact on workforce – wellbeing and mental health would need supporting. A digital wellbeing hub was established and, as the pandemic continued, views from the workforce were obtained via a future ways of working survey.<br><br>**Clients and customers:** Clients recognised the need for Capita staff delivering their services to move to remote working and they supported our business continuity actions. Additional measures to support remote working were required to assure service delivery.<br><br>**Society:** Staff delivering certain essential public sector client services were classified as key workers – office arrangements were tailored accordingly to ensure their safety and to support continuity of service delivery. | People section on page 42. |
| **Disposal of Education Software Solutions (ESS) business** | **Strategy:** ESS is a standalone provider of management information system software and the disposal fitted strategically with the focus on a portfolio of software capabilities better aligned to Capita's core services and markets.<br><br>**Principal risks:** The disposal addressed principal financial stability risk – sale proceeds will be used to strengthen the balance sheet by reducing net debt and pension liabilities. | **Investors:** Financial stability is a key shareholder concern and the disposal both strengthens Capita's financial position and forms part of the ongoing simplification of the Group. | CFO review on page 19 |

* Principal decisions are those that are material to the Group and/or significant to any of our key stakeholder groups.

The investor relations team, Chairman and Chair of the Remuneration Committee engaged with shareholders ahead of the 2020 AGM to discuss governance and remuneration issues.

In December 2020, the Chair of the Remuneration Committee began a consultation with Capita's top investors on proposed changes to the remuneration policy, including a discussion on support to a move to Restricted Share Awards. Further details are set out in the directors' remuneration report.

### Shareholder meetings

Shareholders are normally encouraged to attend the AGM but, due to Covid-19 restrictions, shareholder meetings in 2020 were held as closed meetings and a question and answer facility was made available to shareholders on the Company's website. Information for shareholders is available on the Company's website www.capita.com. The non-executive directors are normally available to meet with shareholders to understand their views more fully. The Chairman is normally available to meet with Capita's significant shareholders. Directors, including chairs of the various committees, are normally present at the AGM, subject to Covid-19 restrictions, to answer any questions.

### Shareholder communications

In addition to the AGM, shareholders can access up-to-date information through the Group's website at www.capita.com. Shareholders can also view their holdings by using the Signal shares shareholder portal, a service offered by Link Asset Services, the Group's registrar, at www.capitashares.co.uk. The Signal shares portal is an online service enabling shareholders to quickly and easily access and maintain their shareholding online. Shareholders can also contact Link by email at enquiries@linkgroup.co.uk. Link also provides a telephone helpline, 0371 664 0300, calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

## Business relationships

Details regarding relationships with suppliers, clients and others, together with further cross-references, are provided in the section 172 statement on page 38.

## Remuneration Committee

Details of the Remuneration Committee and its activities are given in the directors' remuneration report on pages 90.

## Risk management and internal control

The Board monitors the Company's risk management and internal control systems and carries out an annual review of their effectiveness. The Audit and Risk Committee report contains further details.
The monitoring and review includes all material controls, including financial, operational and compliance controls. This process is regularly reviewed by the Board. The Group's key internal control procedures are fully documented within the strategic report on pages 50 to 53.

Furthermore, through the operation of the risk governance process, the directors confirm, for the purposes of provision 28 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. A description of those risks, together with how they are being managed or mitigated, is set out on pages 54 to 57.

## Other statutory and regulatory information

### Strategic report

The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 December 2020 and of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found on pages 1–58. Details of the Group's business goals, strategy and model are on pages 2, 3, 6 and 7.

### Corporate governance report

The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs) is set out on pages 66 to 76.

### Management report

For the purposes of Rule 4.1.5R(2) and Rule 4.1.8R of the DTRs, this directors' report and the strategic report on pages 1 to 58 comprise the management report.

### Post-balance sheet events

The following events occurred after 31 December 2020 and before the approval of the consolidated financial statements but have not resulted in adjustments to the 2020 financial results:

Disposal of Education Software Solutions (ESS): the disposal of the ESS business to Tiger UK Bidco Limited, a newly formed company established by funds advised by Montagu Private Equity (Montagu) completed on 1 February 2021. Cash proceeds of £298.5m were received, with net assets disposed of £51.8m and estimated disposal costs of £28.9m (of which £20.6m were accrued for at 31 December 2020). As a result, we expect to record a total gain on disposal of approximately £217.8m. Montagu has also agreed to invest in ParentPay (Holdings) Limited (ParentPay), a provider of education technology. Following successful completion of both investments, ESS will become part of ParentPay Group. An additional sum of £45m will subsequently be payable to Capita once Montagu's agreed investment in ParentPay has achieved regulatory approval.

Royal Navy training contract: Capita signed a contract to provide training services to the Royal Navy and Royal Marines in January 2021. Capita will transform and modernise the Royal Navy's shore-based training across 16 sites in the UK as the lead partner in a consortium which includes Raytheon UK, Elbit Systems UK, Fujitsu and several smaller British suppliers. The contract will be worth an estimated £1.0bn for Capita over 12 years, with opportunities to deliver further training according to the Royal Navy's requirements. This is an addition of £0.9bn to the Group's order book in 2021.

Put option expiry: The Group has a 51% controlling interest in AXELOS Limited. There was a put option in place where by the Group could be required to acquire the non-controlling interest. This option expired without being exercised on 28 February 2021, and the relating liability derecognised.

### Election to apply FRS 101 – reduced disclosure framework

The parent company continues to apply UK GAAP in the preparation of its individual financial statements in accordance with FRS 101 and these are contained in section 7 of the financial statements on pages 191 to 202. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections have been received from shareholders.

### Appointment, reappointment and removal of directors

Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act 2006. All directors are subject to election at the first AGM after their appointment and, in accordance with Provision 18 of the Code, to annual re-election thereafter. A resolution to re-elect each director will therefore be proposed at the AGM on 11 May 2021.

No person, other than a director retiring at the meeting, shall be appointed or reappointed a director of the Company at any general meeting unless they are recommended by the directors.

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

### Group activities

Capita is a purpose-led and responsible business which exists to create better outcomes for all its stakeholders. Our strategy is to simplify and strengthen in order to succeed. Capita's business model is based upon being a consulting, transformation and digital services organisation. We deliver innovative solutions to simplify the connections between businesses and customers, and between government and citizens. We partner with clients to transform their businesses and services. A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1 to 58. The operational and financial performance of its divisions are detailed on pages 26 to 37.

### Results and dividends

The Group's reported loss before tax amounted to £(49.4)m from continued operations (2019: £(62.6)m loss). As previously announced, the directors do not recommend the payment of a final dividend (2019: nil). The total dividend for the year was nil (2019: nil). The employee benefit trust, which holds shares for the purpose of satisfying employee share scheme awards, has waived its right to receive future dividends on shares held within the trust.

### Conflicts of interest

Under the Companies Act 2006, directors are under an obligation to avoid situations in which their interests can or do conflict, or may possibly conflict, with those of the Company. A policy and procedures are in place for identifying, disclosing, evaluating and managing conflicts so that Board decisions are not compromised by a conflicted director. The Company's Articles of Association give the Board power to authorise matters that give rise to actual or potential conflicts. Procedures are reviewed annually to ensure they are operating effectively.

All conflicts of interest are reviewed annually by the Board and included in year-end attestations by the directors. None of the directors of the Company has a material interest in any contract with the Company or its subsidiary undertakings, other than their contracts of employment.

## Major shareholders

At 31 December 2020, the Company had received notifications in accordance with the DTRs that the following were interested in the Company's shares:

| Shareholder | Number of shares | % of voting rights at 31 December 2020 | Number of shares direct | Number of shares indirect |
|---|---|---|---|---|
| RWC Asset Management LLP | 300,200,371 | 17.99 | – | 300,200,371 |
| Schroders plc | 249,517,951 | 14.95 | – | 249,517,951 |
| Marathon Asset Management LLP | 86,576,890 | 5.19 | – | 86,576,890 |
| River and Mercantile Asset Management LLP | 85,996,707 | 5.15 | 85,996,707 | – |
| Veritas Asset Management LLP[1] | 83,131,892 | 4.98 | – | 83,131,892 |
| Ninety One UK Limited | 76,779,117 | 4.60 | – | 76,779,117 |
| BlackRock Inc. | 74,230,358 | 4.45 | – | 74,230,358 |
| Invesco Ltd | 70,883,236 | 4.24 | – | 70,883,236 |
| Veritas Funds PLC | 55,009,900 | 3.30 | – | 55,009,900 |
| Vanguard Group Inc. | 54,711,874 | 3.28 | 54,711,874 | – |
| Jupiter Asset Management Limited | 53,573,060 | 3.21 | – | 53,573,060 |

1. Includes the holding of Veritas Funds PLC.

On 11 March 2021, notification in accordance with the DTRs was received from Schroders plc that it held indirectly 252,790,465 shares, being 15.146% of voting rights. At 12 March 2021, no further notifications had been received under the DTRs in relation to interests in the Company's shares.

### Directors' interests

Details of directors' interests in the share capital of the Company are listed on page 104.

### Share capital

At 12 March 2021, the number of ordinary shares of 2 1/15p each in issue, fully paid up and quoted on the London Stock Exchange is detailed in the table below:

| | Number of shares | % of issued share capital |
|---|---|---|
| Issued shares | 1,671,273,523 | |
| Treasury shares | 2,299,955 | 0.14% |
| Total voting rights | 1,668,973,568 | |
| Employee Benefit Trust (EBT) shares[1] | 12,630,742 | 0.76% |

1. Shares held in the Employee Benefit Trust are used for satisfying employee share options.

During the year ended 31 December 2020, no new ordinary shares were issued and options exercised pursuant to the Company's share schemes were satisfied by the transfer of shares from treasury (276,614 shares). No shares were transferred out of the EBT during the year and no shares have been allotted under the Company's share option schemes since the end of the financial year to the date of this report.

The share price at 31 December 2020 was 39.21p. The highest share price in the year was 176.55p and the lowest was 19.84p.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the AGM in June 2020. During the year, the Company did not purchase any shares (2019: nil).

### Viability statement

This statement is detailed in full on page 58. The directors have assessed the viability of the Group over the three-year period to 31 December 2023, taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report.

Based on this assessment, the directors have a reasonable expectation that the Group is and will continue to be viable.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 58. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 125 to 128. In addition, section 4 in the financial statements on pages 166 to 179 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

In determining the appropriate basis of preparation of the financial statements for the year ending 31 December 2020, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements.

The Board monitors closely the Group's funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. In addition, to support the going concern assumption and viability statement, the Board conducts a robust assessment of the projections, considering also the committed facilities available to the Group. The Board has considered risks to the projections under a severe but plausible downside. This includes adverse impacts arising from the execution risk associated with the transformation plan and the unprecedented economic uncertainties introduced by Covid-19.

To mitigate these the Board is focused on introducing significant new funds to the Group via a continuation of the approved disposal programme and refinancing of the debt maturities. The Group is already engaged in discussions with its RCF lenders regarding an extension to the existing facility which matures in August 2022, targeting completion of the refinancing agenda during 2021, which it expects will include an RCF with a maturity at least a year later. Any refinancing and future disposals will require third party agreements and approvals which represent events that are outside the direct control of the Company. Accordingly, at the time of signing these financial statements there remain material uncertainties, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern.

The Group has a strong track record of executing major planned disposals and a successful history of securing effective refinancing. Therefore, after careful consideration and reflecting also the Board's confidence in the transformation plan, the Board has concluded that the Group and Parent Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due over the going concern period to 31 August 2022.

Accordingly, the directors have formed the judgement that it is appropriate to prepare the consolidated financial statements on the going concern basis. The Board's assessment is set out in more detail in Section 1 of the consolidated financial statements.

**Auditor review**

The auditor has reviewed:

- the statements regarding going concern (see page 71)
- the longer-term viability statement (see page 58)
- those parts of the statement of compliance with the Code relating to:
  - directors' and auditor's responsibilities
  - the 'fair, balanced and understandable' statement
  - confirmation of robust risk assessment, and monitoring and review of effectiveness of risk management and internal control systems
  - Audit and Risk Committee composition, role and responsibilities.

Further details are in the auditor's report (on pages 110 to 123).

**Disabled persons**

As part of the Group's commitment to create a workplace that reflects the diversity of the communities we serve, and a working environment in which no one feels excluded, full consideration is given to all suitable applications for employment regardless of a candidate's disability, age, gender reassignment, religion or belief, sexual orientation or race. Colleagues who declare a disability are supported with reasonable adjustments made either to the workplace or job content so no opportunity, including career development, is inaccessible. Opportunities also exist for employees of the Group who become disabled to continue in their employment with any reasonable adjustments being made or to be retrained for other positions in the Group. Demonstrating our commitment to ensure that disabled people and those with long-term health conditions have the opportunity to fulfil their potential and realise their aspirations, the Group achieved Level 1 of the UK's Disability Confident Scheme in November 2020.

**Employee development and engagement**

Actions taken during the year regarding the consultation of and provision of information to UK employees are described in the people section on pages 40 to 43. Communication with employees in relation to Capita's financial performance is detailed in the remuneration report on page 93.

Capita has an established UK employee share purchase plan designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Company. An international share incentive plan is available to employees in Ireland and Poland.

Further information on employee development, consultation and engagement is included in the people and responsible business sections on pages 40 to 49 and the section 172 statement on page 38.

**Political donations**

The Group did not make any political donations or incur any political expenditure during the year (2020: £nil).

**Greenhouse gas emissions**

Details of the Group's greenhouse gas (GHG) emissions, including metrics and methodology, are set out in the table opposite and on page 48 of the strategic report.

## GHG emissions ($tCO_2e$) and energy use (kWh) for period 1 January 2020 to 31 December 2020

| Period | Current reporting year 2020 | | | Comparison reporting year 2019 | | |
|---|---|---|---|---|---|---|
| Region | 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 | 60,306,017 | 1,999,392 | **62,305,409** | 62741740 | 1914237 | **64,655,977** |
| Electricity and district heat | 80,612,848 | 14,583,265 | **95,196,112** | 99,486,487 | 22,475,597 | **121,962,084** |
| Business travel, cars | 23,507,913 | 3,351,543 | **26,859,456** | 51,485,275 | 11,622,565 | **63,107,840** |
| Total energy used (kWh) | 164,426,778 | 19,934,200 | **184,360,978** | 213,713,501 | 36,012,399 | **249,725,900** |
| % of total energy used | 89% | 11% | **100%** | 86% | 14% | **100%** |
| Emissions from combustion of gas and fuel for heating $tCO_2e$ (Scope 1) | 15,475 | 592 | **16,067** | 15,718 | 364 | **16,082** |
| Emissions from combustion of fuel in company vehicles $tCO_2e$ (Scope 1) | 1,814 | 86 | **1,900** | 2,306 | 116 | **2,422** |
| Emissions from fugitive refrigerant gas $tCO_2e$ (Scope 1) | 1,011 | 0 | **1,011** | 456 | 0 | **456** |
| Emissions from purchased district heat $tCO_2e$ (Scope 2) | 45 | 137 | **181** | 45 | 239 | **284** |
| Emissions from purchased electricity (location-based) $tCO_2e$ (Scope 2) | 18,939 | 9,239 | **28,178** | 25,318 | 16,293 | **41,611** |
| Emissions from purchased electricity (market-based) $tCO_2e$ (Scope 2) | 12,513 | 11,013 | **23,526** | 9,291 | 18,360 | **27,651** |
| Emissions from travel; business mileage, air, rail, tube, tram and light rail, taxi, bus, coach, ferry $tCO_2e$ (Scope 3) | 6,771 | 1,052 | **7,823** | 26,513 | 4,230 | **30,743** |
| Total gross $tCO_2e$ Scope 1 & 2 (location-based) | 37,283 | 10,055 | **47,338** | 43,843 | 17,012 | **60,855** |
| Total gross $tCO_2e$ emissions (location-based) | 44,055 | 11,107 | **55,161** | 70,356 | 21,242 | **91,598** |
| Total gross $tCO_2e$ emissions (market-based) | 37,584 | 12,744 | **50,328** | 9,291 | 18,360 | **27,651** |
| Intensity ratio: gross scope 1 and 2 $tCO_2e$ (location-based) per £1M turnover | 12.4 | 32.0 | **14.2** | 13.1 | 53.1 | **16.5** |
| Intensity ratio: $tCO_2e$ gross scope 1 and 2 (location-based) per headcount | 1.01 | 0.54 | **0.85** | 1.07 | 0.85 | **1.00** |
| 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 the 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 Corporate Citizenship | ISAE 3000 | ISAE 3000 | ISAE 3000 | ISAE 3000 | ISAE 3000 | ISAE 3000 |

### Energy efficiency action

We invested in energy-efficiency measures across our estate and achieved significant emissions reductions in 2020.

| Building plant upgrades and initiatives | $TCO_2e$ reduction per annum |
|---|---|
| Replacement LED lighting saving | 184 |
| Replacement chillers and air conditioning units | 481.6 |
| Replacement of pumps, ventilation fans and controls with high efficiency units | 195 |
| Upgraded building management controls saving | 19 |
| Replacement heating plant | 17 |
| Sub metering of mechanical plant | 853 |
| Replacement Reverse Osmosis water treatment plant. | 140 |
| Total $tCO_2e$ reduction | 1890 |

Our virtual meetings initiative resulted in business travel $CO_2$ equivalent emissions reductions of 32% (2,460 $TCO_2e$) in Q1 2020 against Q1 2019, before the onset of Covid restrictions which largely contributed to a 77% drop in travel emissions for the full year against 2019. We have set science based targets for greenhouse gas reduction in line with 1.5C ambition with a target date of 2030, certified by Science Based Targets initiative and will continue to drive emissions reductions through to 2030 and beyond.

## The Group monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis

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

Liquidity remains a key area of focus. The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans. The Group monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis. The process considers the maturity of both the Group's financial instruments and the forecast cash flows from operations. The Group maintains a balance between continuity of funding and flexibility through the use or availability of multiple sources of funding. To mitigate the risk of needing to refinance in challenging conditions, these have been arranged with a spread of maturities to November 2027.

The financial instruments providing core funding include US private placement loan notes, euro fixed-rate bearer notes, and a euro Schuldschein loan (private placement loan notes).

The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. The RCF expires on 31 August 2022 and is extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. The facility size was increased from £414m to £452m in February 2020 with the addition of a further bank to the facility.

Also, in February 2020, the Group executed a £150m committed bank backstop bridge facility. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second committed bank backstop bridge facility, so that the total value returned to £150m. Both bridge facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

All committed facilities were undrawn at 31 December 2020 (combined total £602m), and also at 31 December 2019 (£414m). No reliance is placed on sources of funding that are not contractually committed. The bank facilities and private placement loan notes all include provisions that would require repayment in the event of a change of control, which are typical of these arrangements.

Finally, certain property and assets used in the Group's operations are funded by lease arrangements. From time to time, the Group may act as lessor to third parties.

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

The Group's customers are offered credit terms that are consistent with market practice. As part of the Group's mitigation of the impact of Covid-19, a non-recourse invoice discounting facility was put in place. The value of invoices sold under the arrangement at 31 December 2020 was £13.6m (2019: £nil). In addition, the Group's German business has established an invoice discounting arrangement relating to a customer contract, and the value of invoices sold under that arrangement at 31 December was £8.5m (2019: £nil). The Group aims to pay its suppliers on time in accordance with agreed terms and does not seek to accelerate payments from customers beyond terms previously agreed.

As set out in note 6.2 (contingent liabilities), the Group has provided, through the normal course of its business, £55.8m letters of credit, performance bonds and guarantees – £22.3m of these were issued by our banks and, within this group, some are subject to security terms where the bank can demand cash collateral in the event the guarantee facility is cancelled.

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

The Group is not generally exposed to significant foreign currency transaction risk. The principal exceptions relate to service delivery based in India, and committed costs relating to the purchase of cloud software services in USD. These exposures are managed through forward foreign exchange contracts, including non-deliverable forward contracts, which fix the GBP cost of highly probable forecast transactions denominated in INR and USD. Further details of the Group's financial instruments can be found in note 4.2 to the consolidated financial statements on pages 168 to 170.

In respect of credit risk, the Group trades only with parties that are expected to be creditworthy. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant.

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

**Directors' indemnities**
As permitted by its Articles of Association, the Company has indemnified each director in respect of certain liabilities and costs they might incur in the execution of their duties as a director. Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and

continue to remain in force. The directors' indemnities will be available for inspection at the annual general meeting together with directors' service contracts.

**Powers of directors**
The business of the Company is managed by the directors who are subject to the provisions of the Companies Act 2006, the Articles of Association of the Company and any directions given by special resolution, including the Company's power to repurchase its own shares.

The Company's Articles of Association may only be amended by a special resolution of the Company's shareholders.

**Change of control**
All the Company's share schemes contain provisions in relation to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Capita has borrowing facilities provided by banks and has issued loan notes to financial investors. The borrowing facilities contain change of control provisions under which the banks may require immediate repayment in full on a change of control of Capita plc. The loan notes issued by Capita contain similar change of control provisions which are likely to require the Group to offer to prepay the notes in full if there is a change in control of Capita plc.

There are a number of significant client agreements which contain provisions relating to change of control, which in some cases could present a right of termination of the contract.

**Rights and restrictions attaching to shares**
Under the Company's Articles of Association (Articles), holders of ordinary shares are entitled to participate in the receipt of dividends pro rata to their holding. The Board may propose and pay an interim dividend and recommend a final dividend in respect of any accounting period out of the profits available for distribution under English law. A final dividend may be declared by the shareholders in general meeting by ordinary resolution, but no dividend may be declared in excess of the amount recommended by the Board.

At any general meeting, a resolution put to vote shall be decided on a poll, and every member who is present in person or by proxy shall have one vote for every share of which they are the holder.

No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

**Restrictions on transfer of shares**
The Company's Articles allow directors to, in their absolute discretion, refuse to register the transfer of a share in certificated form unless the instrument of transfer is lodged, duly stamped, at the registered office of the Company, or at such other place as the directors may appoint and (except in the case of a transfer by a recognised person where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer. They may also refuse to register any such transfer where it is in favour of more than four transferees or in respect of more than one class of shares.

The directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or is exempted from the requirement) under the Uncertificated Securities Regulations to register the transfer.

**Annual general meeting**
The 2021 AGM of the Company will be held at Linklaters LLP, One Silk Street, London EC2Y 8HQ on 11 May 2021. Details of the meeting format and the resolutions to be proposed are set out in the Notice of Meeting, which is sent to shareholders with the 2020 Annual Report and includes notes explaining the business to be transacted. The Notice of Meeting is also available on the Company's website at www.capita.com.

In June 2020, shareholders granted authority for the Company to purchase up to 166,888,334 ordinary shares. This authority will expire at the conclusion of the 2021 AGM. No shares were purchased during 2020. A resolution to renew this authority will be put to shareholders at the 2021 AGM.

The directors consider that each of the resolutions is in the best interests of the Company and the shareholders as a whole, and recommend that shareholders vote in favour of all of the resolutions.

For other general meetings the notice given would be 14 clear working days.

**Cross-references**
For the purposes of LR 9.8.4R, the following information is located as set out below:

| Listing Rule | Subject | Page no. |
|---|---|---|
| 9.8.4 (1) | Capitalisation of interest | 174 |
| 9.8.4 (12–13) | Shareholder waiver of dividends | 70 |

## Directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State, for the Group financial statements, whether they have been prepared in accordance with IFRSs as adopted by the EU.
- State, for the parent company financial statements, whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements.
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they intend either to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' responsibility statement

We, the directors of the Company, confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report and Accounts, taken as whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The directors' report (pages 1-108) has been approved by the Board.

On behalf of the Board.

**Francesca Todd**
Group Company Secretary
16 March 2021
Capita plc
Registered in England and Wales No. 2081330

# Committees

## Terms of reference

The terms of reference for the Nomination, Remuneration, Audit and Risk, and Disclosure committees were reviewed during the year and updated, where required, to reflect updates in good governance practices. They are summarised below and the Nomination, Remuneration and Audit and Risk committee terms of reference are displayed in full in the investor centre at www.capita.com/investors/corporate-governance, together with a summary of matters reserved for the Board.

| Terms of reference | Brief description of responsibilities |
|---|---|
| Nomination Committee | • Reviews composition of the Board.<br>• Recommends appointment of new directors.<br>• Considers succession plans for Board and senior management positions.<br>• Oversees development of diverse pipeline for succession. |
| Audit and Risk Committee | • Reviews accounting policies and contents of financial reports.<br>• Monitors internal control environment.<br>• Considers adequacy, effectiveness and scope of external and internal audit programme.<br>• Oversees relationship with external auditor.<br>• Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed. |
| Remuneration Committee | • Sets policy for Board and senior management remuneration.<br>• Approves individual remuneration awards.<br>• Agrees changes to senior executive incentive plans. |
| Disclosure Committee | • Responsible for the appropriate identification and management of inside information, including any decision to delay public disclosure. |

## Membership

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

| | Nomination | Audit and Risk | Remuneration |
|---|---|---|---|
| Sir Ian Powell | C | | |
| Gillian Sheldon | X | X | X |
| Matthew Lester | X | C | X |
| Georgina Harvey | X | X | C |
| John Cresswell | X | X | X |
| Andrew Williams | X | X | X |
| Baroness Lucy Neville-Rolfe | X | X | X |
| Lyndsay Browne | | | X |
| Joseph Murphy | | X | |

(C) Chair

## Frequency of meetings and attendance

During 2020, the Nomination Committee met three times, the Remuneration Committee met five times and the Audit and Risk Committee met six times. Some directors were unable to attend certain committee meetings due to prior commitments. Attendance of directors at committee meetings is shown in the table on page 66.

# Balancing the composition of the Board

**"The committee has focused on achieving an appropriate balance and continuity of skills on the Board."**

**Sir Ian Powell**
Chair
Nomination Committee

The committee met three times in 2020 and the members' attendance record is shown on page 66. The Group Company Secretary acts as Secretary to the committee and is available to assist committee members as required, also ensuring the distribution of timely and accurate information. The committee reports and makes recommendations to the Board in relation to its activities. It is authorised under its terms of reference to obtain the advice of independent search consultants. The committee's terms of reference were reviewed and updated during the year and can be found on Capita's website at www.capita.com/investors/corporate-governance.

### Diversity and inclusion

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

As with many organisations, the events surrounding the killing of George Floyd in the United States made a profound impact on Capita, and the Board will ensure that the momentum for change in this organisation is maintained. A programme of work relating to the issues raised by the Black Lives Matter movement was initiated during the year and is continuing. The following measures have been put in place: (i) training on inclusive hiring; (ii) zero tolerance for racist behaviour; and (iii) mentoring and reverse-mentoring schemes. The continued focus on the culture of the organisation and its promotion of diversity and inclusion will be a core element of Capita's ongoing transformation.

The coronavirus pandemic impacted both inclusion and wellbeing as the rapid move to remote working for most of Capita's workforce led to a step change in working culture and the need to be both resilient and flexible. Further information on actions taken to address diversity, inclusion and wellbeing across the workforce is on pages 40 to 49 of the strategic report.

### Gender and ethnicity balance

Government-backed diversity reviews have recommended aspirational FTSE350 board diversity targets on gender (33% female representation by the end of 2020) and ethnicity (at least one director of colour by the end of 2024). We have made progress as regards the Board but there is still much to do at Board level and throughout the organisation. At 31 December 2020, female representation on the Board and Executive Committee was 36% and 29% respectively. At 31 December 2020, female representation among senior management[1] and direct reports was 33%.

### Appointment process

Board appointments are made on merit, taking account of the specific skills, experience, knowledge and independence needed to ensure a rounded board, and the government-backed recommendation for 33% female representation on boards. We ensure 40% female representation on recruitment shortlists and, where appropriate, seek to include

## Responsibilities and activities

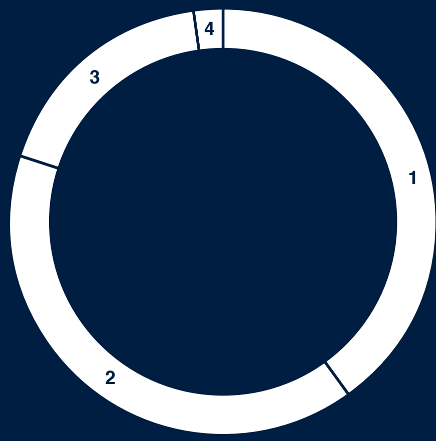
### Key responsibilities

- Identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the 2018 Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition.
- Keep the structure and size of the Board and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board.
- Review the time commitment required from non-executive directors, the performance of directors and all declarations of interest made by Board members.
- Consider, evaluate and drive Capita's diversity policies.

### Activity in 2020

- Succession planning for the Board generally and for other senior positions below Board level.
- Recruitment and appointment of an interim CFO and a new non-executive director and SID designate.
- Consideration of directors' performance, length of service, interests and potential conflicts to ensure independence of non-executive directors and that all directors could stand for re-election or election at the AGM.
- Discussed and approved the renewal of Matthew Lester's appointment as Audit and Risk Committee chair for a further three years and the extension by 12 months of Joseph Murphy's two-year term as employee non-executive director.

### Nomination Committee time allocation (%)




1 **40%** Board appointments
2 **40%** Succession planning
3 **18%** Performance, conflicts and diversity
4 **2%** Governance

candidates who may not have listed company experience but who possess suitable skills and qualities. We only engage executive search firms that have signed up to the voluntary code of conduct on gender diversity and best practice.

### Skills and experience

The skills and experience represented across the Board (not including employee directors) are summarised below:

| | | | |
|---|---|---|---|
| Finance | 4 | Consumer | 2 |
| Transformation | 6 | Government | 1 |
| Media | 2 | Technology / IT | 3 |

### Succession planning and Board composition

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

The committee has focused on achieving an appropriate balance and continuity of skills on the Board. Patrick Butcher's resignation on 16 November 2020 meant that a person with significant finance and transformation experience was needed to cover Patrick's role on an interim basis, while a permanent replacement is recruited. We considered the skillset required for the role and concluded there was no one internal with those skills at that level and, given the length of time needed to recruit a permanent replacement, we appointed Gordon Boyd as interim CFO with effect from the date of Patrick Butcher's resignation so there would be a seamless transition. Patrick remains employed by Capita until the end of March 2021 to support Gordon and provide an orderly handover.

Gillian Sheldon had planned to retire from the Board at the end of February 2021 so, during 2020, the search for a new Senior Independent Director (SID) was undertaken, culminating in the appointment of David Lowden as Non-Executive Director on 1 January 2021 and SID on 1 March 2021.

Due to the significant time commitment required of him in his role as CEO of Halma plc, Andrew Williams has decided not to seek re-election at the AGM and, following six years of valuable insight and contribution, Andrew will step down from the Board on 11 May 2021.

The committee was keen to improve the Board's overall technology skills and wider experience of the IT industry, and the appointment of Neelam Dhawan, who has significant experience of business and technology transformation, will benefit Capita's ongoing transformation. Neelam's appointment is also reflective of our large community of Capita employees in the Indian global delivery centre.

The external search agencies, Odgers Berndtson, Lygon Group and Spencer Stuart were used respectively for the appointments of Gordon, David and Neelam, and those firms have no other connection with the Group or individual directors.

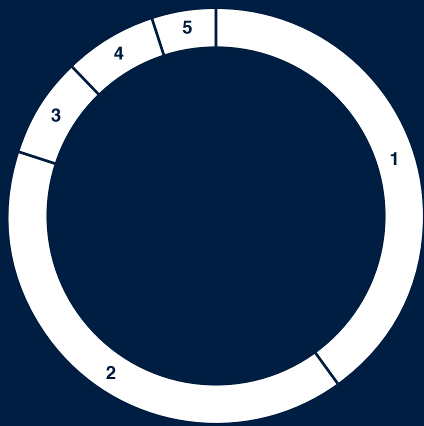
### Board evaluation

Details of the annual board evaluation process are provided in my introduction to this corporate governance section of the Annual Report on page 61.

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

# Managing the impact of Covid-19

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




1 **40%** Financial reporting (incl. external audit)
2 **40%** Risk management
3 **8%** Internal audit
4 **7%** Private meetings with auditors
5 **5%** Governance

**"The primary focus of the committee during 2020 was on Covid-19 and, in particular, on management's response to the pandemic and its impact on Capita's principal risks."**

**Matthew Lester**
Chair
Audit and Risk Committee

The committee continues to fulfil its role of supporting the Board in its review of the integrity of the Group's financial reporting, monitoring the effectiveness of the Group's systems of risk management and internal controls, and overseeing the activities of the Group's internal audit function and its external auditor.

### Risk and control framework

The primary focus of the committee during 2020 was on Covid-19 and, in particular, on management's response to the pandemic and its impact on Capita's principal risks. This included overseeing the measures taken by management; changes to the control environment and risk profile; how the risks were managed in the changing environment; and the long-term potential impact on our principal risks. As the pandemic "stabilised", management provided an assessment of the control environment and identified improvement opportunities in cyber and IT resilience. An assessment was also undertaken of the longer-term impact of the pandemic on Capita's principal risks, as a result of which the ratings of three principal risks were changed as outlined in the internal control and risk management section on pages 50 to 53. Given the challenges arising from the pandemic, limited progress was made to enhance the Group's risk management and internal control framework.

Progress was made on standardising some existing financial processes to drive efficiency and control improvements and further enhancements are planned for 2021. A key control questionnaire process was completed across the Group where every business leader attested to compliance with key controls. This will enable management to focus attention on control areas that need improvement. Work is ongoing to implement elements of the risk and control framework.

Further detail on the risk management and internal control environment is set out later in this report on page 87.

## Role and responsibilities

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

**Financial reporting**
To review the reporting of financial and other information to the shareholders of the Company and monitor the integrity of the financial statements, including the application of key judgements in determining reported outcomes to ensure that they are fair, balanced and understandable.

**Risk management, internal control and compliance**
To review and assess the adequacy of the systems of internal control and risk management, and monitor the risk profile of the business.

**Internal audit**
To approve the annual internal audit plan, review the effectiveness of the internal audit function and review all significant recommendations, and ensure they are addressed in a timely manner.

**External audit**
To review the effectiveness and objectivity of the external audit process, assess the independence of the external auditor and ensure appropriate policies and procedures are in place to protect such independence.

**Effectiveness**
To report to the Board on how it has discharged its responsibilities.

**The Audit and Risk Committee's terms of reference set out in full the role, responsibilities and authority of the committee and can be found on the Company's website at www.capita.com/investors/corporate-governance.**

**These were reviewed and updated during the year.**

### Transformation journey

As set out in Sir Ian's introduction to this Annual Report, certain elements of the multi-year transformation, which includes the finance transformation and development of the Group risk and control framework, were disrupted by the coronavirus pandemic. However, as set out above, and later in this report, the committee continued to assess the framework and its implementation regularly throughout 2020.

### Committee membership and attendance

The committee comprises all the independent non-executive directors plus one of the employee non-executive directors, Joseph Murphy. Although not considered independent under the UK Corporate Governance Code 2018 (Code), Joseph brings valuable insights from the employee perspective into committee discussions and the Board felt that it was important from an employee engagement perspective for him formally to be a member of the committee despite his lack of independence. I am considered to have recent and relevant financial experience for the purposes of the Code.

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

Committee performance was assessed as part of the internally facilitated Board evaluation (see page 61 for more information). The Board is satisfied that the combined knowledge and experience of its members is such that the committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the committee has competence relevant to the sector in which the Company operates. The Group Company Secretary, or their nominee, acts as Secretary to the committee and is available to assist the members of the committee as required, ensuring that timely and accurate information is distributed accordingly.

### How the committee operates

The committee has an annual forward agenda to cover the key events in the financial reporting cycle, specific risk matters identified by the committee and standing items that the committee is required to consider in accordance with its terms of reference. The annual agenda is supported by agenda setting meetings held in advance of each committee meeting, led by me and attended by the CFO, members of the Group Finance team, the Chief General Counsel and the Director of Risk and Group Internal Audit. Their purpose is to identify key issues impacting the business that may require consideration by the committee.

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

## How the committee discharged its roles and responsibilities in 2020

The committee held six scheduled meetings during the year and attendance at each meeting is shown on page 66. Meetings are planned around the Company's financial calendar.

### Impact of Covid-19

During 2020 a specific Covid-19 agenda item was introduced to committee meeting agendas. This focused on how the pandemic was affecting the Group's business and its ability to manage risk across key areas such as health and safety, compliance and internal controls.

### Financial reporting

**Accounting judgements and significant accounting matters**
As part of the process of monitoring the integrity of the financial information presented in the half-year results and the Annual Report and Accounts, the committee reviewed the key accounting policies and judgements adopted by management to ensure that they were appropriate. The significant areas of judgement identified by the committee, in conjunction with management and the external auditor, together with a number of areas that the committee deemed significant in the context of the financial statements, are set out in the tables on pages 83 to 85.

As disclosed in the strategic report, Covid-19 affected the planned refinancing of the Group's debt. The committee has paid particular attention to the going concern policies and disclosures.

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

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

**Communications with the Financial Reporting Council**
In November 2020, the Company received a letter from the Financial Reporting Council (FRC) following its thematic review of companies' disclosures following the first full year of adoption of IFRS 16 Leases. The FRC requested further information in relation to a property lease liability that was extinguished in January 2020 and disclosed as a post-balance sheet event in the 2019 Annual Report and Accounts.

Following provision of the information requested, the FRC closed its enquiry in December 2020. Further disclosure observations made by the FRC were given full consideration and additional disclosures were included in the 2020 Annual Report and Accounts where material or relevant to do so.

The FRC's review was based on the Annual Report and Accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by FRC staff with an understanding of the relevant legal and accounting framework. The review carried out by the FRC provides no assurance that the Annual Report and Accounts were correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

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

### Going concern and viability assessment

**Matter considered**
Consideration of the going concern assumption and viability of the Group and Parent Company is the responsibility of the Board. The committee conducted an assessment as part of its support role, given the inherent judgements required to assist the Board evaluate the resilience of the Group. This was a critical area of focus for the committee given the ongoing transformation plan and the unparalleled economic uncertainties introduced in 2020 by the global pandemic.

**Action**
The committee considered the projections within the business plan, agreed by the Board in February 2021, and the key assumptions underpinning the future cash flow and profit forecasts. The committee received reports from executive management and KPMG concerning the going concern and viability assessments, including the key risks identified. These included details on the key assumptions, the forecasting process including historical forecasting accuracy, the committed facilities available, and the mitigations within direct control of the Group. The committee also considered the risks identified and appraised the severity and plausibility of these in setting the downside scenario (see section 1 to the consolidated financial statements for details). The committee reflected on the mitigations available and under the Group's control, including reductions to variable pay and severely limiting discretionary spend. An important consideration for the committee was the impact these could have on the timely completion of the transformation plan.

As alternatives to these operational mitigations, and to support the medium-term resilience of the Group, the Board had assessed the disposal programme and refinancing agenda. The committee concurred with the Board that the refinancing and disposal mitigations were preferable to the operational mitigations. The committee judged the likelihood of these mitigation actions succeeding by considering the Group's successful track record of executing disposals in recent years and the Group's history of securing effective refinancing. The committee concurred with the Board's assessment and confidence of the Group's ability to complete the planned disposals and refinancing agenda. The committee considered these mitigations as applicable both for the going concern period to 31 August 2022 and the viability period to 31 December 2023.

The committee recognised that any refinancing and future disposals would require third party agreements and approvals. As these events are outside the direct control of the Company, they may give rise to material uncertainties as defined in auditing and accounting standards. The committee reviewed the disclosures presented in section 1 of the consolidated financial statements together with the viability statement on page 58 to ensure there was sufficient detail provided to explain the basis of preparation and the Board's conclusion.

**Outcome**
The committee is satisfied that the analysis presented by executive management and KPMG provides enough detail to allow a robust assessment of relevant risks and mitigations to be undertaken. This supported full discussion of the severe but plausible downsides and allowed the committee to recommend to the Board that the going concern assumption be applied and the viability statement be approved.

The committee is satisfied that section 1 to the consolidated financial statements and the viability statement on page 58 include proportionate disclosures to inform users of the assessments undertaken by the Board.

### Revenue and profit recognition

**Matter considered**
There is significant risk on long-term contracts related to revenue recognised from variations or scope changes, where significant judgement is required to be exercised by management. There is a risk that revenue may be recognised even though it is not probable that consideration will be collected, which could be due to uncertainties over contractual terms and ongoing negotiations with clients.

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

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

To aid the reader, the company has included a detailed explanation of the Group's accounting for long-term contracts (see note 2.1 to the consolidated financial statements).

**Outcome**
The revenue recognition policy includes disclosure of the significant judgements and estimates in relation to its application and the committee is satisfied that these have been properly disclosed. The committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue across the Group, including the recognition of deferred income at the balance sheet date. The committee reviewed the disclosure and concluded that these provide information that is helpful to allow a fuller understanding of the application of IFRS 15 to the Group's contracts.

### Contract fulfilment assets

**Matter considered**

The adoption of IFRS 15 led to the recognition of contract fulfilment assets (CFAs). Judgements are involved in assessing whether the costs incurred on a contract, or an anticipated contract meet the capitalisation criteria as set out under the standard.

In addition, the amortisation of these assets involves estimation of the expected life of the contract, and when a contract is in the early years post-inception and undergoing major transformation activities, the CFAs are at heightened risk of impairment.

**Action**

The committee has considered and challenged the significant judgements and estimates involved in determining the carrying value of CFAs.

As part of the review of all major contracts, the committee has also considered the recoverability of CFAs. During the year, the committee discussed certain CFAs where their recoverability was in doubt.

**Outcome**

The committee is satisfied that appropriate judgements and estimates have been made in determining the carrying value of CFAs and the extent of impairment of CFAs recognised in these statements is appropriate. The committee is satisfied that the accounting policy note provides sufficient clarity as to the policy adopted and that the disclosures provide information to allow a reader to understand the risks associated with different stages of a typical long-term Capita contract.

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

**Matter considered**

The Group carries significant asset balances in respect of goodwill and intangible assets related to its acquisition activity. In addition, the parent company carries a material balance of investment in subsidiaries on its financial statements. The impairment assessment requires the application of judgement concerning future prospects and forecasts.

**Action**

The committee has reviewed the robustness of the impairment model and challenged the appropriateness of assumptions used to calculate and determine the existence of impairment.

**Outcome**

The committee is satisfied that no impairment of goodwill and intangibles was recognised in these statements which is in line with expectations given the assessment was based on board-approved future projections.

The committee is also satisfied that the assumptions, methodology and disclosure in notes 3.3 and 3.4 to the consolidated financial statements are sufficient to give the reader an understanding of the action taken and the sensitivities within the goodwill and intangible assets balance to any further impairment risk.

The committee also considered the level of detail included in the sensitivity analysis to ensure that this reflected the current stage of the transformation and associated execution risks.

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

### Items excluded from adjusted results

#### Matter considered
As stated in its accounting policies, Capita separates its results between adjusted and reported to provide useful disclosure to aid the understanding of the performance of the Group. The committee needs to ensure a fair and balanced treatment of what is and is not included as an adjusting item.

#### Action
The committee reviewed the individual items excluded from adjusted results. The committee has requested further information concerning the origination of the items where it felt it was necessary to enable a conclusion to be drawn as to whether the chosen presentation achieved the stated principle.

The committee considered the accounting policy by reference to guidance issued by the FRC and the need to ensure any alternative performance measures are presented with equal prominence to reported figures and on a consistent basis year-on-year.

The committee considered the appropriate presentation to apply for costs associated with the transformation plan which are presented as an 'adjustment' to the reported results. The plan is extensive and covers several Capita-wide initiatives to address the cost competitiveness of the businesses and to simplify and strengthen the Group.

Categories of expenditure include costs typically associated with major restructuring such as severance payments, but also include costs related to the offshoring of activities and the introduction of automation and digital solutions, a Group-wide property rationalisation and functional transformation projects. To support these activities, external professional fees are being incurred in addition to dedicated internal costs. Where such costs are incremental and directly related to the transformation plan, the committee has concluded that such costs should be included in the overall transformation costs that are separately presented.

In agreeing this presentation, the committee was mindful of the guidance issued by the FRC in November 2017 in terms of multi-year major 'restructuring' programmes. This directs boards to define the costs to be presented separately, set borders to capture only relevant costs, and emphasises that disclosures to explain the costs must be transparent and of high quality.

The committee considers that this guidance has been applied and note 2.4 to the consolidated financial statements provides details of the costs incurred in 2020. The committee will continue to review this policy in 2021 and beyond, as the transformation programme continues.

#### Outcome
The committee concurs with management's view that the presentation of items excluded from adjusted results provides useful disclosure to aid the understanding of the performance of the Group and agrees that the items excluded meet with the stated policy for recognition.

Note 2.4 to the consolidated financial statements sets out the items that are separately presented, and the committee is satisfied that this provides sufficient information to inform a reader on each category presented. The committee also notes that the approach is consistent with that used for the rights issue in 2018.

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

### Provisions and contingent liabilities

#### Matter considered
There is judgement applied in the level of provisioning across the Group. This involves assessing the size, timing and probability of economic outflows due to the occurrence of a past event. It is therefore important to understand the judgement being made as well as the estimate of any accompanying outflow of funds.

#### Action
The committee has reviewed the disclosure in the financial statements and, in particular, has challenged management to justify provisioning levels where a range of outcomes has been identified.

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

The committee reviewed the final outcome of matters and compared this to the provision recognised by management.

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

The committee is satisfied that the historical level of accuracy in management's provisioning supports the current level of provisions.

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

### Pensions

#### Matter considered
The measurement of the defined benefit liability in respect of defined benefit pension schemes operated within the Group is a complex area, relying on assumptions on inflation, mortality, corporate bond yields, expectations of returns on assets and several other key inputs. There is a risk that any one of these could lead to misstatement of the Group's liability in respect of pension obligations and the pension charge or movement recognised in the income statement or statement of comprehensive income.

#### Action
The committee reviewed the disclosure as presented in the accounts. The committee also challenged the key assumptions and reviewed the sensitivity to changes in some of the key assumptions on a standalone basis as well as in the context of defined benefit schemes across other external benchmarks.

#### Outcome
The committee is satisfied that the estimation of the Group's pension liabilities and the narrative that accompanies them gives the required level of information for a reader of the accounts to determine the impact on the Group of its pension obligations.

## Other issues considered in relation to the financial statements

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

The committee requests further clarification from the external auditor, the CFO and Director of Group Finance as to the nature of these items and also their relative importance in the financial statements.

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

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

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

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

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

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

- The CFO monitors the independence of the auditor as part of the Group's assessment of auditor effectiveness and reports to the committee accordingly.
- The CFO must approve all audit-related engagements – further details are set out in the section below on audit-related services. The committee reviews audit-related fees twice a year and considers the implications for auditor objectivity and independence.
- The auditor must confirm its independence to the committee every six months.

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

### Audit-related services and fees
The company's policy on auditor independence describes the services that may be procured from the auditor, namely audit and audit-related services only. To avoid the perception of a conflict of interest, the provision of non-audit services is not permitted. Audit-related services include those required by laws and regulations, or where it is more practical for the external auditor to perform the service (eg reporting accountant role related to certain public company transactions). KPMG continues to perform the review of interim results which, although technically classified as a non-audit service, relates closely to the audit.

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

Total non-audit fees during the year were £1.4m, and related to the review of interim results, services as reporting accountant for the disposal of the Education Software Solutions business, and a refinancing which did not complete due to market appetite. Further details are provided in note 2.3.2 to the consolidated financial statements.

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

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

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

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

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

**FRC's AQR of the Capita 2019 audit by KPMG**
During the year, the 2019 audit of Capita plc by KPMG was reviewed by the AQR team. The FRC routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits and related procedures at individual audit firms. Certain matters for limited improvement were identified relating to how KPMG evidenced its conclusions over the work performed in one specific area of the audit. The AQR also highlighted good practice observations in relation to KPMG's challenge over going concern and the approach adopted to auditing Capita's forecasts.

The committee and KPMG have discussed the review findings and the agreed actions and are satisfied with responses to be implemented by KPMG in the 2020 audit. Overall, the results of the review raised no issues which cast doubt on the fundamental quality of Capita's external audit and the committee remains satisfied with the efficiency and effectiveness of the external audit.

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

The lead audit partner is rotated on a five-yearly basis. The current lead audit partner rotated onto the audit at the conclusion of the 2016 audit. There are no contractual obligations which restrict the committee's choice of auditor.

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

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

**Review of risk management and internal control**
Responsibility for reviewing the effectiveness of the Group's risk management and internal control systems is delegated to the committee by the Board. The principal risks and risk management processes are set out on pages 50 to 57.

**Effectiveness and efficiency of risk management**
During the year, the committee completed a robust assessment of the principal risks, including those that would threaten its business model, future performance, solvency or liquidity. The assessment included the impact of Covid-19 on the principal risks and identified emerging risks such as the impact of Brexit and the potential long-term impact of Covid-19 on our business and people. In Q4 the committee recognised that the health, safety and wellbeing of our people should be recognised as a principal risk. Work is ongoing to understand this risk in greater detail, including the mitigation strategies proposed by management.

The committee received reports on the following themes during the year:

- cyber and information security
- IT resilience
- attracting, developing and retaining our people
- anti-bribery and corruption
- financial services regulated businesses.

The enterprise risk management framework and the control environment is currently being enhanced but implementation of more advanced processes has yet to be embedded. Nevertheless, the committee concluded that risk management processes were materially adequate and there were no material weaknesses requiring specific disclosure. The committee reported the conclusions to the Board to support the annual confirmation that a robust assessment of the principal risks had been carried out.

**Effectiveness and efficiency of financial controls**
Detail on the status of internal financial controls is in the internal control and risk management section of this report and can be found on page 52. The committee concluded that, whilst these were not appropriately efficient for a Group of the scale and complexity of Capita, overall they could be relied upon to be materially effective.

### Internal audit

The Group internal audit function has an administrative reporting line to the CFO and an independent reporting line to me as Chair of the committee. The function has in place a co-sourcing arrangement which adds expertise and breadth to the work of the in-house audit team. The function is led by the Director of Group Internal Audit who also took responsibility for the Group's unregulated risk function in March 2020. Regulated business risk remains the responsibility of the Chief General Counsel.

During 2020, due to the Covid-19 pandemic, the internal audit programme was revised to focus on key risk areas and part of the audit programme was deferred. The Group internal audit function also worked with the business on several control and assurance activities to support the response to Covid-19. The scope of audit work generally focuses on assessing the adequacy and effectiveness of controls, including management oversight and the degree of management risk awareness within the businesses that are subject to audit.

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

The Group Internal Audit team reports themes aligned to the committee of Sponsoring Organisations of the Treadway Commission (COSO) internal control framework including: lack of defined policy and procedures over key processes; risks being managed through the experience of our people and existing knowledge; roles, responsibilities and accountabilities not always clear; and lack of evidence to demonstrate monitoring and reporting of control activity. In all cases management has responded with appropriate action to mitigate the associated risks, and divisional executive management has increased its visibility of significant issues. In addition, there has been focus by senior management to improve the control environment through the closure of previously overdue audit actions.

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

Through regular interaction between the committee and the Director of Group Internal Audit, as well as reports received from the function, the committee can assess and satisfy itself that the Group's provision of internal audit is effective.

### Anti-bribery and corruption

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

### Speak Up

Capita's Speak Up policy provides a framework for any worker to raise serious concerns at work in a responsible and effective manner. To ensure that concerns are addressed in a manner independent of a worker's business area, concerns can be raised through a facility provided by an independent third-party provider. Where concerns are raised, they are escalated, following a triage process performed by that provider, to named contact points within Capita for further assessment and investigation. Oversight of these arrangements is a matter reserved to the Board and it receives updates on the operation of the policy.

### Privacy

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

We continued to embed a first-line and second-line approach to privacy compliance, with the business units remaining primarily responsible for day-to-day privacy-related activities and, led by a Data Protection Officer, a central privacy team providing appropriate support and challenge. These assurance activities included automating a privacy checklist as part of the contract review committee's processes to ensure that all relevant steps have been implemented at contract win or renewal stage and streamlining our approach to Data Protection Impact Assessments and Privacy by Design and Default to ensure privacy is considered at every stage of the solutions process. We have continued the communication of privacy policies, monitoring all data incidents to identify trends and to provide remediating actions, and provided appropriate privacy training and support to the data protection leads and other key colleagues embedded within the business units. The results and outputs of the privacy self-assessment questionnaire in 2019 were used to ensure that there is continuous improvement across the business. Responding to the challenges of the pandemic, emphasis has been placed on the privacy challenges of a new way of working from remote locations. Appropriate guidance and governance structures have been implemented to facilitate this.

**Matthew Lester**
Chair
Audit and Risk Committee
16 March 2021

## Group executive risk committee

The Group executive risk committee (ERC) assesses risk across all Capita's unregulated businesses and reports to the Audit and Risk Committee. It normally holds scheduled meetings on a quarterly basis but, as a result of the developing Covid-19 situation, the scheduled March 2020 meeting was cancelled. However, meeting papers were circulated and matters requiring approval were approved by email and subsequently ratified at the following scheduled meeting. Membership comprises the CEO, CFO, Chief General Counsel, Group Commercial Director, Chief Growth Officer and the divisional executive officers. The Group Risk & Internal Audit Director has a standing invitation, and the non-executive directors have an open invitation, to attend all meetings. Meetings are chaired by either the CEO or CFO. The ERC's role is to oversee and challenge the key unregulated business risk and compliance activities and issues in Capita's unregulated businesses by:

- Reviewing the risk profile of the Group's entities, along with ensuring appropriate remedial actions are taken in line with Group objectives and risk appetites.
- Advising the Group Audit and Risk Committee on the management of risks.
- Reviewing and commenting on Group control function activity and oversight plans.
- Overseeing the effective operation of internal control systems.
- Tracking key regulatory changes impacting the Group's regulated businesses.
- Considering matters escalated to it by any divisional risk and assurance committee.
- Identifying items for the attention of the Board, Group Audit and Risk Committee or Group financial services risk committee (FSRC).

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

## Group financial services risk committee

The FSRC complements the ERC by assessing risk across Capita's regulated businesses and also reports to the Audit and Risk Committee. The FSRC holds scheduled meetings on a quarterly basis. Membership comprises a new independent chair, appointed on 1 October 2020, an independent non-executive (who is also independent chair of the board of Capita Employee Benefits Limited), the CFO and the Chief General Counsel. Relevant senior management function post-holders, together with functional heads and other appropriate representatives from Group Internal Audit and Group Risk & Compliance, have a standing invitation to attend all meetings.

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

- Reviewing the risk profile of Capita's financial services and regulated businesses, along with ensuring appropriate remedial actions are taken in line with Group objectives and risk appetites.
- Advising the Audit and Risk Committee on the management of risks.
- Receiving reports on significant issues arising from regulatory monitoring and internal audit activity, and reporting on key communications with the FCA and developments in the relationship.
- Receiving updates on conduct issues and regulatory capital issues – eg internal capital adequacy assessment process (ICAAP).
- Overseeing the effective operation of internal control systems.
- Identifying items for the attention of the Board, Group Audit and Risk Committee or ERC.

During 2020, the ERC met three times and the FSRC met four times. Membership and meeting attendance are set out in the tables below. The maximum number of meetings that could be attended is shown in brackets. Further details on how risk was managed during 2020 are set out in the internal control and risk management section on pages 50 to 53.

**Group executive risk committee:**

| Name of member | Title | Number of meetings attended |
|---|---|---|
| Gordon Boyd (Chair) | Chief Financial Officer (interim) | 1 (1) |
| Jon Lewis | Chief Executive Officer | 1 (3) |
| Aimie Chapple | Executive Officer, Customer Management | 3 (3) |
| Mark Cook | Executive Officer, Technology Solutions | 1 (3) |
| Andy Start | Executive Officer, Government Services | 1 (3) |
| Chantal Free | Executive Officer, People Solutions | 3 (3) |
| Jim Vincent | Executive Officer, Specialist Services | 2 (3) |
| Chris Baker | Executive Officer, Software | 3 (3) |
| Claire Chapman | Chief General Counsel | 3 (3) |
| Rob Tolfts | Group Commercial Director | 3 (3) |
| Ismail Amla | Chief Growth Officer | 0 (3) |
| Patrick Butcher[1] | Former Chief Financial Officer | 2 (2) |

1. Patrick Butcher chaired two ERC meetings prior to his resignation as Chief Financial Officer on 16 November 2020.

**Group financial services risk committee:**

| Name of member | Title | Number of meetings attended |
|---|---|---|
| Simon Burke (Chair)[1] | Independent Non-Executive | 1 (1) |
| Babloo Ramamurthy[2] | Independent Non-Executive | 4 (4) |
| Gordon Boyd | Chief Financial Officer (interim) | 1 (1) |
| Claire Chapman | Chief General Counsel | 4 (4) |
| Patrick Butcher[3] | Former Chief Financial Officer | 3 (3) |

1. Simon Burke was appointed Chair with effect from 1 October 2020.
2. Babloo Ramamurthy chaired three FSRC meetings prior to 1 October 2020.
3. Patrick Butcher resigned as Chief Financial Officer on 16 November 2020.

# Directors' remuneration report

"Our new remuneration policy is better aligned to the delivery of our transformation plan and Capita's responsible business strategy."

**Georgina Harvey**
Chair
Remuneration Committee

This report is split into three sections:

- The **annual statement** details how the committee discharged its roles and responsibilities including: a review of the current remuneration policy; the operation of the current policy in 2020 (including the committee's response to Covid-19); and pay decisions for 2021.
- The **directors' remuneration policy** presents a proposed new policy (the policy) which will be subject to a binding shareholder vote at the 2021 annual general meeting (AGM).
- The **annual report on remuneration** sets out the remuneration arrangements and incentive outcomes for the year under review. The directors' remuneration report will be subject to an advisory shareholder vote at the 2021 AGM.

In addition to seeking shareholder approval for the new remuneration policy and the directors' remuneration report, excluding the policy, approval will also be sought for a new share plan (the 2021 Capita Executive Plan) to enable executive directors to receive restricted share awards (RSAs) on the terms permitted within the proposed new policy.

## Annual statement

Dear shareholder,

I am pleased to present the directors' remuneration report for the year ended 31 December 2020, my second as Chair of the committee and my first at the end of a full financial year.

The committee has been focused on taking a fair and balanced approach to remuneration across Capita, in light of the challenges that our employees and our clients have faced as a result of the Covid-19 crisis, and against the backdrop of Capita's responsible business strategy.

Temporary salary reductions were applied in 2020 to the directors, executive committee members and higher earning colleagues across the Group and we decided early in the year not to operate the annual bonus plan for 2020. However, reflecting our focus on colleague wellbeing, we have continued with our commitment to pay the real living wage as a minimum to all those directly employed by Capita in the UK.

Details of the committee's approach to remuneration in 2020, the proposed new policy (including a detailed rationale) and its proposed implementation for 2021 are set out below.

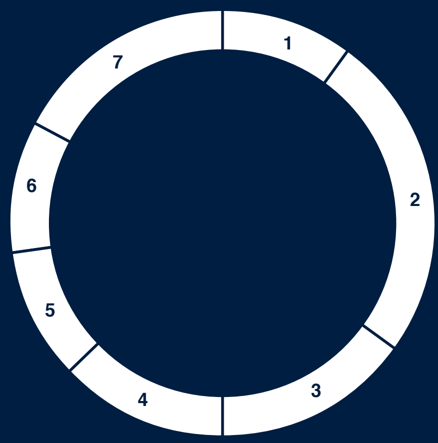
### How the committee operates

The committee has an annual agenda to cover the key planning and decision events in the annual remuneration cycle. Each meeting is supported by an agenda-setting discussion held in advance with the committee Chair, Chief People Officer and Group Reward Director to identify issues impacting remuneration which may require consideration by the committee. Regular reports, including updates on corporate governance and regulatory developments, are received from the committee's adviser. At each committee meeting the members may receive other reports and presentations covering wider workforce arrangements which include the annual pay review, incentive scheme arrangements, gender pay reporting, salary proposals for members of the senior team and approval of remuneration packages for new members of the executive committee.

# Remuneration Committee membership and attendance

All members of the committee are independent non-executive directors, with the exception of the non-executive employee director. The number of formal meetings held and the attendance by each member is shown in the table on page 66. The committee also held informal discussions as required. The Group Company Secretary acts as secretary to the committee and is available to assist the members of the committee as required, ensuring that timely and accurate information is distributed accordingly.

**Remuneration Committee time allocation** (%)




1 **10%** Governance
2 **25%** Executive Directors' and Executive Committee members' remuneration
3 **15%** STIP
4 **13%** LTIP
5 **10%** Wider workforce
6 **10%** Shareholder consultation/feedback
7 **17%** Remuneration policy review

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

## Committee activities

The key workstreams of the committee during the year included:

- Assessing the impact of Covid-19 on executive director and executive committee remuneration.
- Agreeing the directors' remuneration policy taken to the 2020 AGM.
- A review of the directors' remuneration policy for 2021, which included extensive shareholder consultation.
- Remuneration arrangements for leavers/joiners.
- Consideration of executive pay arrangements and alignment with those for the wider workforce.

In addition, the committee has ensured that the remuneration policy and practices are consistent with the six factors set out in Provision 40 of the 2018 UK Corporate Governance Code (the Code):

**Clarity** – Our policy and the proposed changes are well understood by our senior management team and have been clearly articulated to our major shareholders and representative bodies (both on an ongoing basis and during the recent consultation exercise).

**Simplicity** – The committee is mindful of the need to avoid overly complex remuneration structures, which can be misunderstood and deliver unintended outcomes. A key objective of the committee is to ensure our executive remuneration policies and practices are straightforward to communicate and operate. The 2021 policy and its implementation has been simplified significantly in respect of long-term incentive pay.

**Risk** – Our policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded via: (i) the balanced use of both short-term incentives and long-term share awards; (ii) the significant role played by equity in our incentive plans (together with in-employment and post-cessation shareholding guidelines); and (iii) malus/clawback provisions and the committee's ability to use discretion to adjust vesting downwards.

**Predictability** – Our incentive plans are subject to annual individual limits, with our share plans also subject to a share dilution limit.

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

**Alignment to culture** – Our executive pay policies are fully aligned to Capita's culture, including elements of fixed pay (executive director pension provision is aligned with the workforce) and through the use of performance metrics that measure how we perform against our financial and non-financial KPIs. RSAs further increase alignment to Capita's responsible business strategy by offering a narrower range of value outcomes.

### Remuneration for 2020 and the committee's response to Covid-19

Following an investor consultation exercise carried out by the committee at the end of 2019, the intended approach to 2020 remuneration was as follows:

- Salary levels would be maintained at 2019 levels.
- Annual bonus potential would be set at 200% of salary for the Chief Executive Officer (CEO) and 175% of salary for the Chief Financial Officer (CFO) with the bonus based on adjusted profit before tax, adjusted free cash flow, organic revenue growth and strategic KPIs (with each metric weighted equally), and subject to a free cash flow underpin.
- Long-term incentive plan (LTIP) award levels would be set at 300% of salary for the CEO and 200% of salary for the CFO and performance metrics and targets were to be simplified with 50% of awards based on relative total shareholder return (TSR), 25% based on earnings per share (EPS) and 25% based on responsible business scorecard measures. Awards would be subject to a performance underpin (based on an assessment of the underlying financial and operational performance of Capita).

However, in response to the challenges presented by the Covid-19 pandemic:

- Executive director salaries were voluntarily reduced by 25% for six months from 1 April 2020. Temporary reductions also applied to non-executive director fee levels, and executive committee and other higher earning colleagues' salaries across the Group.
- The annual bonus plan was withdrawn for 2020 for the executive directors (and for the executive committee and selected senior managers) before the targets were agreed.
- 2020 LTIP awards were significantly reduced from normal levels. Rather than awards of 300% of salary for the CEO and 200% for the CFO, the awards were reduced by c.70%. While the committee had intended to set adjusted EPS growth targets for 25% of the 2020 LTIP award, it concluded that, given the continued uncertainty surrounding the full impact of Covid-19, the EPS performance metric should be removed from the 2020 LTIP award and TSR should be upweighted to 75% of the award and measured over the three years from the date of grant. The remaining 25% of the 2020 LTIP award is based on responsible business scorecard measures as planned. The awards are also subject to a performance underpin as planned.

The 2018 LTIP awards held by Jon Lewis which are due to vest in 2021 (Patrick Butcher did not hold 2018 LTIP awards, given that he joined Capita after the grant date) will vest at 60% of the maximum opportunity as a result of the annualised cost savings, customer satisfaction and employee satisfaction targets being met in full. The EBIT margin target was not met and the committee exercised its discretion and decided the adjusted free cash flow element should not vest. The committee considers that this vesting level reflects Capita's progress to date in delivering the transformation plan. Further details in respect of this performance assessment and the value of the awards (which are materially reduced from the value as at the original grant date following the fall in share price) are set out on page 103.

The committee is satisfied that total remuneration paid to each of the executive directors in respect of 2020 was appropriate when the progress against the transformation plan, the approach to mitigating the impact of Covid-19, and the stakeholder experience more generally, are considered.

### Use of discretion

The committee retains the right to exercise discretion to override formulaic outcomes and ensure that the level of bonus or share award payable is appropriate. It may use its judgement to adjust outcomes downwards to ensure that any payments made reflect overall Company performance and stakeholder experiences more generally. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the annual report. A summary of the discretion exercised by the committee in 2020 (and in respect of the prior year) is set out below:

| | 2019 | 2020 |
|---|---|---|
| Annual bonus | Following an assessment of the performance against the adjusted PBT, adjusted free cash flow, organic revenue growth and strategic/ personal annual bonus targets, the formulaic outturn produced an annual bonus award of 37.1% of the maximum for the CEO and 32% of the maximum for the CFO. However, following a quality of earnings review and consideration of the shareholder experience during 2019, the committee exercised its discretion and determined that no bonus would be paid to the executive directors in respect of 2019. | In light of the impact of Covid-19, the annual bonus plan was withdrawn for 2020 for the executive directors (plus the executive committee and selected senior managers) before the targets were agreed. |
| LTIPs | No discretion applied. | 2020 LTIP award levels were reduced by c.70% compared with normal grant levels. In addition, and to reflect underlying financial and operational performance, the committee applied downward discretion when assessing the vesting of the 2018 LTIP. |

### Board changes in 2020

On 16 November 2020, Patrick Butcher resigned from his position as CFO and Executive Director, and Gordon Boyd was appointed as interim CFO and Executive Director on the same date. Patrick has assisted Gordon in an orderly handover and will remain employed to support Gordon and the Company until the end of March 2021. Details of the remuneration arrangements in respect of Patrick's resignation and Gordon's appointment are set out in the annual report on remuneration on page 106.

### Reviewing the policy for 2021

Capita rolled forward its remuneration policy (the policy) at the 2020 AGM, with the focus on reflecting developments in corporate governance. However, since then it has become clear that the existing policy, based on the annual grant of LTIPs, is no longer working effectively and a new policy is required. While the committee is aware that seeking shareholder approval for a new remuneration policy a year after the last policy was approved is not common, these are clearly exceptional times for Capita, our stakeholders and society more generally.

As such, the committee decided that, subject to shareholder approval, a switch from LTIPs to restricted share awards (RSAs) should be made from the 2021 AGM, because RSAs will:

- Better reflect the challenges of our corporate transformation plan of delivering improving returns to shareholders. While we continue to make progress with the transformation, it is taking longer and proving more complex than originally envisaged. As such, divestments and restructuring continue to form a major part of the strategy, and this has highlighted the challenges and issues in respect of setting rolling three-year targets; this has been exacerbated by Covid-19.
- Increase alignment with Capita's responsible business strategy which is integral to our Company purpose, operating model and strategy, demonstrating how we should act as a force for good to create better outcomes for all our stakeholders. While this was intended to be addressed, at least in part, by the introduction of responsible business scorecard targets in the 2020 LTIP awards, shareholder feedback in respect of the 2020 AGM suggested that views were mixed on whether suitable performance metrics and targets could be identified to reflect Capita's strategic and broader societal aims. RSAs will remove the issue of identifying appropriate performance metrics and offer a narrower and more predictable range of value outcomes, which

is considered to be more appropriate than the current, highly geared, LTIP structure, particularly considering Capita's 'critical service' government contracts and that the portfolio includes a number of lower-margin businesses. In addition to the above, the committee is conscious of political and societal pressures to reduce executive pay levels (as demonstrated by the committee's response to Covid-19, which is outlined above).

- Aid retention of senior management, given the challenges set out above, and noting that there was no annual bonus for 2020 (the second year in a row with no bonus awards) and previous LTIP awards are unlikely to vest to a material value.
- Increase internal alignment within Capita given that RSAs are awarded below Board level.
- Simplify remuneration arrangements significantly, which will in turn increase transparency.

The ability to grant LTIP awards, up to 300% of salary, will therefore be removed from the policy. Following the 2021 AGM, and then annually thereafter, executive directors may receive RSAs:

- Of up to 150% of salary for the CEO and up to 100% of salary for the CFO (when appointed); this represents a 50% reduction to the normal LTIP award levels.
- Which will normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against one or more underpins. Details of the underpins which will apply to the proposed 2021 RSAs are set out below and in the annual report on remuneration on page 101.
- Which, once vested, may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

In addition to the switch to RSAs, the post-cessation shareholding guidelines will be enhanced. Rather than 100% of the shareholding guideline applying up to the first anniversary of the date of cessation and then reducing to 50% of the guideline between the first and second anniversary of cessation, 100% of the shareholding guideline (300% of salary for Jon Lewis and 200% for other executive directors) or the actual shareholding if lower will need to be held for two years, post cessation.

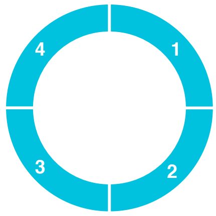
In addition to seeking shareholder approval for the new remuneration policy, approval will also be sought for a new share plan, the 2021 Capita Executive Plan, to enable executive directors to receive RSAs on the terms permitted within the proposed remuneration policy. Full details of the proposed new share plan are set out in the Notice of AGM.

**Implementing the policy for 2021**

A summary of the proposed approach to the implementation of the proposed remuneration policy for 2021 (assuming it is approved by shareholders) is as follows:

- No base salary increases were awarded to the executive directors at the normal 1 January 2021 review date.
- Executive directors (excluding the interim CFO) will continue to receive a workforce-aligned pension allowance (5% of salary, in line with other employees).
- The annual bonus plan will be reintroduced for 2021 with the policy-aligned maximum opportunities of 200% (CEO) and 175% (CFO role, when a permanent replacement for Patrick Butcher has been appointed) of salary. However, rather than the four performance metrics being equally weighted, as per the intended 2020 annual bonus plan, the committee will give free cash flow more prominence for 2021 as follows:

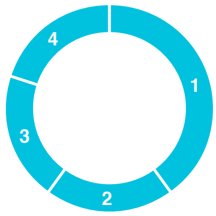
**2020 Bonus***




1 **25%** Free cash flow
2 **25%** Adjusted PBT
3 **25%** Organic revenue
4 **25%** Strategic objectives

* withdrawn in light of Covid-19

**2021 Bonus**




1 **40%** Free cash flow
2 **20%** Adjusted PBT
3 **20%** Organic revenue
4 **20%** Strategic objectives

- RSAs to be granted post the AGM in 2021 will, subject to shareholder approval:
  - be set at a maximum grant value of 150% of salary for the CEO and 100% of salary for the CFO (when appointed) albeit the committee will consider the prevailing share price at the time of grant, which is expected to be immediately after the 2021 AGM, which may cause the committee to set the level of grant for 2021 at a reduced level.
  - normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against two underpins (see below).
  - once vested, shares received may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

In respect of the underpins for the 2021 awards:

- underpin 1: Capita's TSR over the three years ending 31 December 2023 must be positive for any RSAs granted to executive directors to vest.
- underpin 2: The committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage over the vesting period. If this underpin is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

- No changes will be made to the outstanding LTIP awards.

## Shareholder views

In finalising the proposed changes to the remuneration policy, the committee considered the feedback it received in respect of: (i) the new policy introduced at the 2020 AGM (noting the resolution received 97% votes for); and (ii) a shareholder consultation exercise carried out at the end of 2020 and start of 2021. Consistent with good practice, the consultation exercise was concluded with a wrap-up letter that set out the committee's final proposals, which included extending the post-vesting holding period from two years to three years (a change from our original proposals) and summarised the main areas of feedback Capita received. The committee is grateful for the contribution and level of support received from shareholders.

**Employee engagement**

In 2020, Jon Lewis regularly communicated with all employees, including on our 2019 financial results. Employees are able to submit any questions on the Company – including in relation to the directors' remuneration policy and report, pay and benefits – both online and during live employee briefings. Lyndsay Browne, one of the employee non-executive directors, was appointed to the Remuneration Committee in 2020 with the intention of ensuring a workforce perspective on remuneration at the very top of the organisation.

### Concluding thoughts

As Capita continues to deliver its transformation the committee is satisfied that the proposed changes to the remuneration policy will help to ensure that the senior management team is appropriately retained and incentivised. The committee will continue to consult widely with shareholders to respond to their expectations of remuneration policy and reporting and welcomes all input.

I hope you find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of this year's remuneration-related resolutions.

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

**Georgina Harvey**
Chair
Remuneration Committee
16 March 2021

## Directors' remuneration policy

This part of the remuneration report sets out our revised remuneration policy and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The policy has been developed taking into account the principles of the Code and the views of our major shareholders. The policy will be put to a binding shareholder vote at the 2021 AGM and, subject to shareholder approval, will take formal effect from the conclusion of the AGM. The information provided in this section of the remuneration report is not subject to audit.

### Changes to the current policy

This revised policy is broadly consistent with the existing policy that was approved by shareholders at the 2020 AGM albeit, as detailed in the annual statement, it has been amended for the following changes:

- LTIP awards will (subject to approval by shareholders of the 2021 Capita Executive Plan) be replaced by RSAs. The ability to grant LTIP awards, up to 300% of salary, has therefore been removed from the policy. Subject to shareholder approval, following the 2021 AGM and then annually thereafter, executive directors may be granted RSAs:
  - of up to 150% of salary for the CEO and up to 100% of salary for the CFO role. This represents a 50% reduction to the normal LTIP award levels.
  - which will normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against one or more underpins.
  - which, once vested, shares received may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).
- The policy in respect of non-executive director fees has been updated to permit the payment of an allowance for intercontinental travel for business purposes where an individual is required to travel overseas.
- The policy in respect of leavers has been amended slightly to make it clear that only good leavers will be entitled to receive an annual bonus award, payable at the normal payment date and pro-rated as appropriate.
- The post-cessation shareholding guidelines have been enhanced. 100% of the shareholding guideline (currently 300% of salary for Jon Lewis and 200% of salary for other executive directors) or the actual shareholding if lower will need to be held for two years post cessation.

### Responsibilities and activities of the Remuneration Committee

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

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

In setting the remuneration policy for the executive directors, executive committee members and the Group Company Secretary, the committee ensures that the arrangements are in the best interest of both the Group and its shareholders, by taking into account the following general principles:

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

### Consideration of shareholder views

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

As detailed in the annual statement, the committee consulted with major shareholders and shareholder representatives on the proposed changes to the remuneration policy. Feedback received from this was considered when drafting the new policy and is also reflected in the implementation of the policy for 2021.

### Consideration of our people

When determining executive director remuneration policy and practices, the committee reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture to ensure that workforce pay and conditions are taken into account when setting the pay of executive directors and senior management.

Share awards are granted to senior management in order to encourage a high level of employee share ownership, albeit remuneration is more heavily weighted towards long-term variable pay for executive directors than other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the executive directors. Two employee non-executive directors attend committee meetings (one as a committee member, one by invitation) to ensure that a workforce perspective is heard at the very top of the organisation with respect to remuneration.

## Remuneration policy table

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

### Base salary

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

### Benefits

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

### Pension

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

### Annual bonus

| Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|
| Performance measures are selected to focus executives on delivery of the Group business plan for the financial year. | The bonus measures and targets are reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year.<br>Performance against targets is reviewed following completion of the final accounts for the period under review.<br>50% of any bonus earned (net of tax) is normally delivered in shares deferred for three years, with the remainder delivered in cash or deferred shares at the executive director's discretion.<br>An additional payment may be made at the time of vesting in respect of dividends that would have accrued on deferred shares during the deferral period.<br>Malus and clawback provisions apply to all annual bonus and deferred bonus share awards for a period of up to three years after the determination of the annual bonus. | 200% of salary. | Performance is normally measured over a one-year period relative to challenging targets for selected measures of Group financial, strategic and/or individual performance.<br>The majority of the bonus will be determined by measure(s) of Group financial performance.<br>A sliding scale is set for each Group financial measure: 50% of the bonus will be paid at target performance, increasing to 100% for maximum performance.<br>Any bonus payout is ultimately at the discretion of the committee, and the amount of any bonus that would be determined based on performance may be reduced if the committee believes this better reflects the underlying performance of Capita over the relevant period. |

### Restricted share awards

| Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|
| Designed to reward and retain executives over the longer term while aligning their interests with those of shareholders.<br>To link reward to longer-term performance.<br>To encourage share ownership. | Awards will normally vest after three years from grant and, once vested, shares may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).<br>Dividends or dividend equivalents may accrue over the vesting period and any holding period but only to the extent awards vest.<br>Malus and clawback provisions apply to awards for a period up to the fifth anniversary of grant. | 150% of salary. | Vesting will be subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against one or more underpins.<br>In addition, the committee may reduce the extent to which an award vests if it believes this better reflects the underlying performance of Capita over the relevant period. |

### Shareholding guidelines

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

### Non-executive director (NED) fees

| Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|
| Market competitive fees are set so as to attract and retain non-executive directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities. | Reviewed periodically by the Board. Fee levels set by reference to market rates, taking into account the individual's experience, responsibilities, time commitment and pay decisions for the broader workforce.<br>NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as:<br>• Senior independent director<br>• Audit and Risk Committee chair<br>• Remuneration Committee Chair<br>• The Chairman of the Board receives an all-inclusive fee.<br>Additional fees/allowances may also be paid for intercontinental travel for business purposes where appropriate.<br>No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit. | As per the executive directors, there is no prescribed maximum monetary annual increase.<br>Fees are limited to an aggregate annual sum of £1m increased only to take account of the effect of inflation as measured by the retail price index or such index as the directors consider appropriate or such other amount as the Company may by ordinary resolution decide. | Not performance-related. |

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

Targets are normally set on sliding scales that take account of internal strategic planning and external market expectations for the Company.

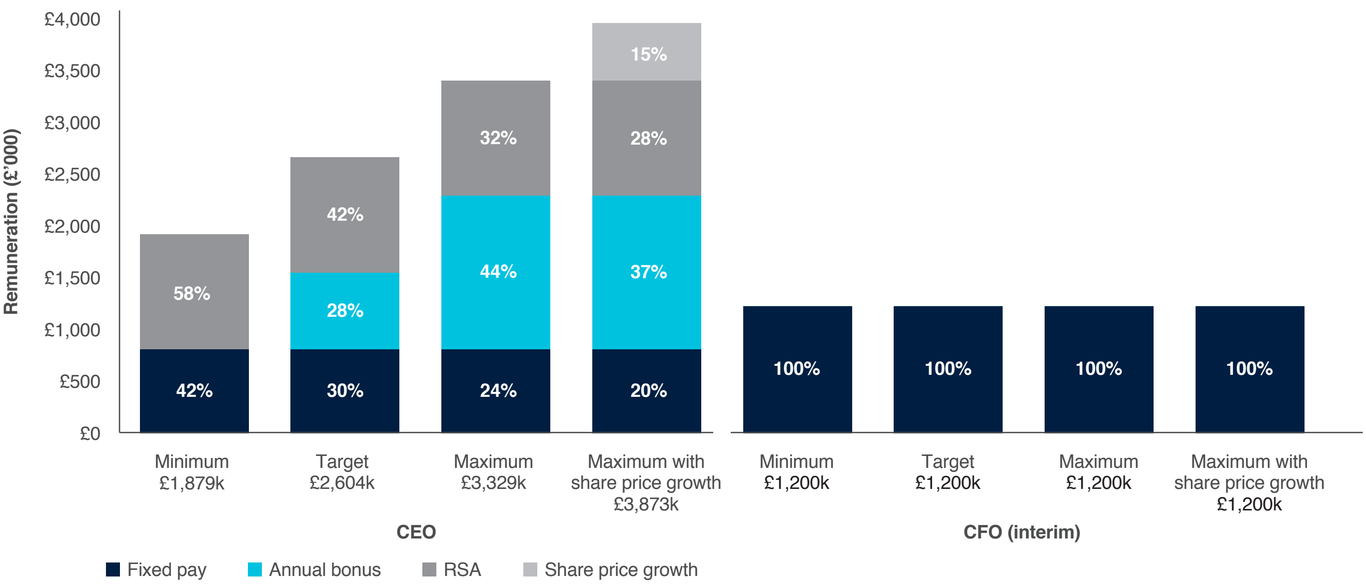
Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial outperformance of challenging strategic plans approved at the start of each year.

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

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

The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes payments includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted. The committee retains discretion to make minor amendments to the policy set out in this policy report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

## Illustrations of the application of our remuneration policy




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

| | Minimum | On-target | Maximum | Maximum with share price |
|---|---|---|---|---|
| **Fixed pay** | • Base salary as at 1 January 2021 (unchanged from 2020)<br>• Estimated value of benefits<br>• 5% of salary pension | | | |
| **Annual bonus**<br>CEO max: 200% of salary | 0% | 50% of max | 100% of max | 100% of max |
| **RSA**<br>CEO max: 150% of salary* | 100% of max | 100% of max | 100% of max | 100% of max with a 50% share price growth assumption on RSAs |

* This is the maximum award level permitted. The Committee will consider the prevailing share price in setting the grant level of the 2021 RSA awards. Except as stated above in relation to RSA, figures for share based awards do not include any share price movements or any dividends or dividend equivalents.

In his capacity as interim CFO, Gordon Boyd is on a short-term contract and receives a fixed monthly payment of £100,000 (which is broadly equivalent to Patrick Butcher's on-target total remuneration). He is not entitled to any further remuneration in respect of pension, bonus or share awards.

## Malus and clawback

Malus and clawback provisions apply to all incentive awards granted to executive directors. These provisions permit the committee to reduce or recover bonus awards (including deferred shares) for up to three years after the determination of the annual bonus and to reduce or recover RSA awards (and LTIP awards granted under the previous policy) up to the fifth anniversary of grant. The potential circumstances in which malus or clawback provisions can be applied include:

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

## Application of our remuneration policy

When determining executive director remuneration policy and practices, the committee reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture.

Share awards are granted to senior management in order to encourage a high level of employee share ownership albeit remuneration is more heavily weighted towards long-term variable pay for executive directors than other employees to ensure that there is a clear link between the value created for shareholders and the remuneration received by the executive directors. The committee did not consult with employees formally in respect of the design of the new policy, although the two employee directors (one as a committee member and one by invitation to the committee) were involved in the committee's discussions.

## Directors' recruitment and promotions

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

If a new executive director were to be appointed on a permanent basis, the committee would seek to align their remuneration package with other executive directors in line with the policy table. However, flexibility would be retained to make 'buyout' awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer. In such circumstances, the committee would look to replicate the arrangements being forfeited as closely as possible and, in doing so, would take account of relevant factors including the nature of the remuneration and contractual terms, performance conditions and the time over which they would have vested or been paid.

If appropriate, a new appointee's incentives in their year of joining may be subject to different targets than for other executive directors. The committee may also agree that the Company will meet certain relocation and incidental expenses, as it considers appropriate.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new executive directors in the year of recruitment shall be limited to 350% of salary (the maximum limit permitted within the policy table).

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

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

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

- An interim appointment is made to fill an executive director role on a short-term basis.
- Exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short-term basis.

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

## Directors' service agreements and payments for loss of office

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

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

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

The annual bonus may be payable for a good leaver (as defined in the plan rules) in respect of the period of the bonus plan year worked by the director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. Bonus payments would normally be paid at the normal payment date.

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

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

In respect of RSAs/LTIPs, unvested awards will normally lapse on the earlier of notice being given/received and cessation. However, the committee has discretion to allow awards to instead continue to vest on the normal vesting date (or earlier at the discretion of the committee) to the extent any performance conditions/underpins attached to the relevant award are satisfied at vesting. In such cases awards will, other than in exceptional circumstances, be scaled back on a time pro-rated basis and post-vesting holding periods would normally apply.

In the event of a change of control, all unvested LTIP awards/RSAs would (unless rolled over) vest, to the extent that any performance conditions/underpins attached to the relevant awards have been achieved. Awards would normally be subject to time pro-rating (unless the committee determines otherwise).

Unvested deferred share awards would vest in the event of a change of control (unless rolled over). Shares held within the share ownership plan will be removed from the plan or exchanged for replacement shares in accordance with the scheme rules and HMRC guidelines.

### Non-executive directors' terms of engagement

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

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

Non-executive employee directors are appointed by letter of appointment for an initial period of two to three years. Each appointment is terminable by one month's written notice on either side. At the end of the initial period, the appointment may be renewed by mutual consent, subject to annual re-election at the AGM.

### Inspection of service agreements/letters of appointment

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

## Annual report on remuneration

This part of the remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2021 AGM. The information on pages 102 to 105 has been audited as indicated.

FIT Remuneration LLP was appointed by the committee during 2020 (replacing Deloitte LLP) to provide independent advice on executive remuneration matters. During the year, the committee received independent and objective advice from FIT primarily on market practice, the operation of and redesign of the remuneration policy, disclosure within the accounts and stakeholder liaison. FIT was paid £77,463 (excluding VAT) in fees during 2020 for these services (charged on a time plus expenses basis). No other services were provided to the Group by FIT.

Deloitte was paid £4,450 (excluding VAT) in fees during 2020 for advice services, charged on a time plus expenses basis, provided in respect of the 2019 directors' remuneration report.

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

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

The work of the Remuneration Committee is detailed in the annual statement.

## Shareholder voting at the AGM

The 2020 directors' remuneration report will be presented to shareholders at the 2021 AGM. At the 2020 AGM, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2019 and the vote on the 2020 policy is set out below.

| | Votes cast for | Votes cast against | Abstentions[1] |
|---|---|---|---|
| Directors' remuneration report, other than the part containing the Directors' remuneration policy, for the year ended 31 December 2019 | 1,339,467,637 | 10,983,340 | 2,228,742 |
| | 99.2% | 0.8% | – |
| Directors' remuneration policy (2020 AGM) | 1,315,406,714 | 35,036,898 | 2,236,107 |
| | 97.4% | 2.6% | – |

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

## Policy implementation for 2021

A summary of how the committee intends to operate the remuneration policy for 2021 is detailed below. The operation of the policy will be dependent on shareholder approval of the proposed remuneration policy and associated new share plan at the 2021 AGM in respect of the proposed RSAs.

- Fixed pay will remain unchanged.
- The annual bonus plan will be reintroduced for 2021 in line with the normal policy limits (200% of salary for the CEO and 175% of salary for the CFO role, when a permanent replacement for Patrick Butcher has been appointed). However, rather than the four performance metrics being equally weighted, as per the intended operation of the annual bonus plan for 2020 (prior to the decision not to operate it due to Covid-19), free cash flow will be given greater prominence for 2021. As such, 40% of the 2021 annual bonus will be based on free cash flow targets while adjusted PBT, organic revenue and strategic objectives will each have a 20% weighting.
- RSAs to be granted to executive directors post the AGM in 2021 will:
  - be set at a maximum of 150% of salary for the CEO and 100% of salary for the CFO (when appointed) although the committee will consider the prevailing share price at the time of grant (which is expected to be immediately after the 2021 AGM), and may set the level of grant for 2021 at a reduced level.
  - normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against two underpins (see below).
  - once vested, shares received may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

In respect of the underpins for the 2021 awards:

- underpin 1: Capita's TSR over the three years ending 31 December 2023 must be positive for any RSAs granted to executive directors to vest; and
- underpin 2: the committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage. If this is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

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

A summary of the fees for 2021, which are unchanged from 2020 levels, are as follows:

| | Annual fee from 1 January 2021[1] |
|---|---|
| **Sir Ian Powell, Chairman** | £325,000 |
| **David Lowden, Senior Independent Director** | £75,000 |
| **Matthew Lester, Audit and Risk Committee Chair** | £75,000 |
| **Georgina Harvey, Remuneration Committee Chair** | £75,000 |
| **John Cresswell** | £64,500 |
| **Andrew Williams** | £64,500 |
| **Baroness Lucy Neville-Rolfe** | £64,500 |
| **Neelam Dhawan** | £64,500 |
| **Lyndsay Browne** | £64,500 |
| **Joseph Murphy** | £64,500 |

1. Or upon joining if after 1 January 2021.

## Directors' remuneration earned in 2020 – single-figure table (audited)

The table below summarises directors' remuneration received in 2020 (with prior year comparators).

| | | Base salary and fees[1] £ | Benefits[2] £ | Pension £ | Annual bonus £ | LTIP £ | **Total remuneration £** | Total fixed remuneration £ | Total variable remuneration £ |
|---|---|---|---|---|---|---|---|---|---|
| Sir Ian Powell | **2020** | 284,375 | – | – | – | – | **284,375** | 284,375 | 0 |
| | 2019 | 325,000 | 28 | – | – | – | **325,028** | 325,028 | 0 |
| Jon Lewis[4] | **2020** | 634,375 | 17,928 | 36,250 | – | 423,772 | **1,112,325** | 688,553 | 423,772 |
| | 2019 | 725,000 | 28,428 | 36,250 | – | – | **789,678** | 789,678 | 0 |
| Patrick Butcher[3, 4] | **2020** | 322,058 | 15,252 | 18,790 | – | – | **356,101** | 362,875 | 0 |
| | 2019 | 430,000 | 19,556 | 21,500 | – | 305,363 | **776,419** | 471,056 | 305,363 |
| Gordon Boyd[5] | **2020** | 152,381 | – | – | – | – | **152,381** | 152,381 | 0 |
| | 2019 | – | – | – | – | – | **–** | – | – |
| Gillian Sheldon | **2020** | 65,625 | – | – | – | – | **65,625** | 65,625 | 0 |
| | 2019 | 75,000 | – | – | – | – | **75,000** | 75,000 | 0 |
| Matthew Lester | **2020** | 65,829 | – | – | – | – | **65,829** | 65,829 | 0 |
| | 2019 | 75,000 | – | – | – | – | **75,000** | 75,000 | 0 |
| Georgina Harvey[6] | **2020** | 65,625 | – | – | – | – | **65,625** | 65,625 | 0 |
| | 2019 | 18,750 | – | – | – | – | **18,750** | 18,750 | 0 |
| John Cresswell[7] | **2020** | 56,438 | – | – | – | – | **56,438** | 56,438 | 0 |
| | 2019 | 72,375 | – | – | – | – | **72,375** | 72,375 | 0 |
| Andrew Williams | **2020** | 56,438 | – | – | – | – | **56,438** | 56,438 | 0 |
| | 2019 | 64,500 | – | – | – | – | **64,500** | 64,500 | 0 |
| Baroness Lucy Neville-Rolfe | **2020** | 56,438 | – | – | – | – | **56,438** | 56,438 | 0 |
| | 2019 | 64,500 | 251 | – | – | – | **64,751** | 64,751 | 0 |
| Lyndsay Browne[8] | **2020** | 56,438 | – | – | – | – | **56,438** | 56,438 | 0 |
| | 2019 | 32,250 | – | – | – | – | **32,250** | 32,250 | 0 |
| Joseph Murphy[8] | **2020** | 56,438 | – | – | – | – | **56,438** | 56,438 | 0 |
| | 2019 | 32,250 | – | – | – | – | **32,250** | 32,250 | 0 |

1. As part of Capita's response to Covid-19, the executive and non-executive directors agreed to take a 25% reduction in salary/fees for six months, effective from 1 April 2020. The salary/fees shown above reflect this voluntary reduction.
2. Benefits include all taxable benefits as defined by paragraph 11(1) of the regulations. This includes private medical insurance, company car allowance, work travel and the value of matching share awards under the UK all-employee share scheme.
3. Patrick Butcher's base salary, benefits and pension are shown for the period 1 January 2020 to the date he stepped down from the Board on 16 November 2020.
4. The LTIP value for Patrick Butcher for 2019 relates to a buyout award. Further details can be found in the 2019 Annual Report. Details of the performance assessment and vesting of the 2018 LTIP award held by Jon Lewis are set out on page 103. The impact of share price movements on his awards, based on the average three-month share price to 31 December 2020 (35.8p), is as follows:

| | |
|---|---|
| Face value of awards expected to vest, based on the share price at grant (1,972,776 shares x 60% x 122p) | £1,444,072 |
| Expected value of awards at vesting (1,972,776 shares x 60% vesting x 35.8p) | £423,772 |
| Impact of share price movements on vesting values | -£1,020,300 |

5. Gordon Boyd was appointed interim CFO on 16 November 2020 following Patrick Butcher's resignation on the same date. Reflecting the interim nature of Gordon's role, he receives a base salary (£100,000 per month). He is not eligible for any variable remuneration, and does not receive benefits or pension contributions.
6. Georgina Harvey was appointed Remuneration Committee Chair on 1 October 2019.
7. John Cresswell stepped down as Remuneration Committee Chair on 30 September 2019 but remained a non-executive director of the Board.
8. Lyndsay Browne and Joseph Murphy were appointed to the Board as employee directors on 1 July 2019. In addition to their fee as a non-executive employee director, both received earnings from the Group as an employee amounting to £100,309 for Lyndsay Browne (including a prior period adjustment for pension) and £69,200 for Joseph Murphy for the period 1 January 2020 – 31 December 2020. As part of their participation in the Capita Share Ownership Scheme Lyndsay Browne received 648 matching shares (£270) and Joseph Murphy received 564 matching shares (£223). The value of the matching shares is the sum of the cost of purchase over the period 1 January 2020 – 31 December 2020.

### Annual bonus for 2020 (audited)

As disclosed in last year's directors' remuneration report, the committee had intended to operate the annual bonus for 2020 at normal levels (200% maximum for the CEO and 175% of salary for the CFO) based on adjusted PBT, free cash flow, organic revenue and strategic targets. However, in response to the Covid-19 pandemic, the committee made the decision not to operate an annual bonus for 2020 for the executive directors. This decision also extended to the executive committee members and a significant number of senior managers. As such, no financial or strategic targets were set or are therefore disclosable.

### Long-term incentive awards due to vest in 2021 based on performance to 31 December 2020 (audited)

The performance assessment in respect of the 2018 LTIP awards held by Jon Lewis is as follows:

| Performance metric | Weighting | Threshold (25% vests) | Target (50% vests) | Stretch (100% vests) | Result | Vesting – % of max |
|---|---|---|---|---|---|---|
| Annualised cost savings | 20% | £160m | £175m | £205m | £389m | 100% |
| Adjusted free cash flow[1] | 20% | £180m | £200m | £240m | – | 0% |
| Adjusted EBIT margin | 20% | 9% | 10% | 12% | 4.7% | 0% |
| Customer satisfaction | 20% | 6 point positive swing in NPS | 8 point positive swing in NPS | 12 point positive swing in NPS | 16 point positive swing in NPS | 100% |
| Employee engagement | 20% | 6 point positive swing in NPS | 8 point positive swing in NPS | 12 point positive swing in NPS | 21 point positive swing in NPS | 100% |
| Total vesting | | | | | | 60% |

1. The committee exercised downward discretion and decided the adjusted free cash flow element should not vest.

For the year to 31 December 2020, the adjusted free cash flow result for 2020 (after applying conditions in existence at the time of the 2018 award) was £217.3m. This meant that 72% of this element (14% of the total award for Jon Lewis) would vest, bringing the total vesting for Jon Lewis to 74% of maximum. In consideration of the Company's underlying financial and operational performance over the three years to 31 December 2020, the committee exercised its discretion and decided that the adjusted free cash flow element should not vest. The committee thereby determined that 60% vesting was appropriate due to:

- The progress made to date in respect of Capita's transformation plan.
- The very strong performance in respect of annualised cost savings against what were considered to be a challenging target range.
- The very strong performance in respect of customer satisfaction and employee engagement, both of which are key parts of Capita's transformation plan.

However, this performance was not reflected in the share price at 31 December 2020. In addition to the use of downward discretion, share price performance is also clearly reflected in the expected value of the award levels at vesting.

In addition to the use of downward discretion, share price performance is also reflected in the expected value of the award levels at vesting.

Based on the above outcomes, the estimated vesting of the long-term incentive for Jon Lewis in 2021 is:

| | Awards granted | Shares vesting based on performance (60% of maximum) | Dividend equivalent shares[1] | Total shares expected to vest | Estimated value at vesting[2] |
|---|---|---|---|---|---|
| Jon Lewis | 1,972,776 | 1,183,666 | – | 1,183,666 | £423,772 |

1. No dividend equivalent shares are payable on the 2018 LTIP award.
2. Based on the average three-month share price to 31 December 2020 of 35.8p.

### Long-term incentive awards granted in 2020 (audited)

The 2020 LTIP award levels granted to Jon Lewis and Patrick Butcher on 16 April 2020 were reduced significantly compared with normal grant levels. Based on the share price on the date of grant (32.72 pence), the awards to Jon Lewis and Patrick Butcher (made as nil-cost options) represented a reduction of 70% in the number of shares that would otherwise be awarded as part of their normal annual grant. LTIP awards for senior management were also reduced significantly.

| Name of director | Number of shares awarded | Face value of LTIP awards | Percentage of salary (prior award level) |
|---|---|---|---|
| Jon Lewis | 1,770,000 | £579,144 | 80% (300%) |
| Patrick Butcher[1] | 700,000[1] | £229,040[1] | 53%[1] (200%) |

1. Awards lapsed upon resignation

2020 LTIP awards will normally vest three years from grant, subject to the performance conditions set out below and a performance underpin. Any shares that vest are subject to both a post-vest holding period of two further years and a shareholding guideline which prevents any net-of-tax shares from being sold until the guideline is reached. The performance targets attached to the awards are as follows:

- 75% relative TSR – 25% of this part of an award will vest for median TSR increasing pro-rata to 100% of this part of an award vesting for upper quartile performance as measured against the constituents of the FTSE 250 (excluding investment trusts) over the three years from grant. In addition to the median to upper quartile target range, no part of this award may vest unless the Remuneration Committee is satisfied that the level of vesting is consistent with the Company's underlying financial performance.
- 25% responsible business scorecard measures centred around delivering a better-quality business, based on client (10%), employee engagement (10%) and supplier (5%) targets and measured over the three financial years ending 31 December 2022.

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

As disclosed in last year's directors' remuneration report and as explained in the annual statement (see page 92), the committee intended to set EPS growth targets for 25% of the 2020 LTIP awards but concluded that, given the continued uncertainty surrounding the full impact of Covid-19, the EPS performance metric should be removed from the 2020 LTIP awards and TSR should be upweighted].

## Directors' interests and shareholding guidelines (audited)

In line with the remuneration policy approved, executive directors (excluding interim roles) are expected to hold 200% (300% for the CEO) of salary in shares in the Company. The guidelines include shares held beneficially and also shares within the deferred annual bonus (DAB) plan that have been deferred over the three-year period. Any shares in the DAB used for this are calculated net of tax. Share awards that are subject to performance conditions are not included.

Post cessation shareholding guidelines proposed in the new remuneration policy for 2021 will require executive directors to retain 100% of the relevant guideline (or the actual shareholding if lower at cessation) until the second anniversary of the date of cessation.

| | Beneficially held interests at 31 December 2020 | Beneficially held interests at 31 December 2019 | Interests in share incentive schemes, awarded without performance conditions at 31 December 2020 | Interests in share incentive schemes, awarded without performance conditions at 31 December 2019 | Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2020 | Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2019 | Interests in share option schemes where performance/ vesting conditions have been met but not exercised at 31 December 2020 | Interests in share option schemes where performance/ vesting conditions have been met but not exercised at 31 December 2019 | Percentage of shareholding target requirement at 31 December 2020 |
|---|---|---|---|---|---|---|---|---|---|
| Sir Ian Powell | 30,000 | 30,000 | – | – | – | – | – | – | – |
| Jonathan Lewis | 458,624 | 403,655 | 516,029 | 516,029 | 5,525,562 | 3,755,562 | 1,183,666 | – | 12% |
| Patrick Butcher[1] | 121,243 | 121,243 | – | 187,167 | – | 704,918 | – | 100,911 | – |
| Gordon Boyd | – | – | – | – | – | – | – | – | – |
| Gillian Sheldon | 12,500 | 12,500 | – | – | – | – | – | – | – |
| Matthew Lester | 49,168 | 21,745 | – | – | – | – | – | – | – |
| Georgina Harvey | 6,000 | – | – | – | – | – | – | – | – |
| John Cresswell | 20,500 | 20,500 | – | – | – | – | – | – | – |
| Andrew Williams | 100,000 | 100,000 | – | – | – | – | – | – | – |
| Baroness Lucy Neville-Rolfe | 13,842 | 13,842 | – | – | – | – | – | – | – |
| Lyndsay Browne | 6,416 | 1,447 | – | – | – | – | – | – | – |
| Joseph Murphy | 6,555 | 2,218 | – | – | – | – | – | – | – |

1. Patrick Butcher's beneficially held interests are shown at the date of his resignation on 16 November 2020. All unvested share awards lapsed upon resignation.

Between the end of the 2020 financial year and end of March 2021, Jon Lewis, Lyndsay Browne and Joseph Murphy acquired 1,178 shares under the Capita share ownership plan, increasing their beneficial interest in ordinary shares of the Company to 459,802, 7,594 and 7,733 respectively. Although Capita does not have a formal policy on hedging shares, executive and non-executive directors attest annually they have not pledged any shares held in the Company.

## Share plans (audited)

### DAB plan

A deferred award is the deferred element of an individual's annual bonus. Any deferral is made on a gross basis into deferred shares or as a (net of tax) restricted share award. The deferred shares are held for a period of three years from the date of award. This part is not subject to performance conditions.

### Unvested DAB deferred/restricted awards at 31 December 2020

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

1. Jon Lewis and Patrick Butcher joined Capita on 1 December 2017 and 10 December 2018 respectively, therefore, were not eligible for bonuses in 2017 and 2018 (in respect of 2016 and 2017 performance). Patrick Butcher also was not eligible for a bonus in 2019 (in respect of 2018 performance).
2. The value of the 2019 deferred award awarded on 21 March 2019 was included in the annual bonus value in the 2018 single-figure table. As a result of no bonus award for 2019 and no bonus operated for 2020, there have been no further deferred bonus awards.

### Unvested LTIP awards

| Name of director | 2018 award | 2019 award | 2020 award |
|---|---|---|---|
| Jon Lewis | 1,972,776 | 1,782,786 | 1,770,000 |
| Patrick Butcher[1] | n/a | 704,918[1] | 700,000[1] |

1. Awards lapsed upon resignation

Details of the performance targets and expected vesting in respect of the 2018 awards are set out on page 103.

The performance targets and underpin for the 2019 and 2020 LTIP awards are as follows:

### 2019 awards:

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

### 2020 awards:

| Performance underpin | Performance measure | Weighting | Threshold (25% vests) | Target (50% vests) | Stretch (100% vests) |
|---|---|---|---|---|---|
| Assessment of the underlying financial and operational performance of Capita over the performance period | Relative TSR | 75% | Median TSR performance vs the constituents of the FTSE 250 (excluding investment trusts) | Pro-rating vesting between median and upper quartile performance on a straight line basis between 25% and 100% | Upper quartile TSR performance vs the constituents of the FTSE 250 (excluding investment trusts) |
| | Responsible business scorecard: | | | | |
| | Client | 10% | 3 point positive swing in NPS | 6 point positive swing in NPS | 9 point positive swing in NPS |
| | Employee | 10% | 3 point positive swing in NPS | 6 point positive swing in NPS | 9 point positive swing in NPS |
| | Suppliers adherence to prompt payment code | 5% | – | Maintain current | Exceed current |

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

**Dilution**
All awards are made under plans that incorporate the overall dilution limit of 10% in 10 years. The estimated dilution from existing awards, including executive and all-employee share awards, was approximately 2.71% of the Company's share capital at 31 December 2020.

## Executive directors' service agreements

| Executive directors | Date of joining the Company | Notice period |
|---|---|---|
| **Jon Lewis** | 1 December 2017 | 12 months |
| **Gordon Boyd**[1] | 16 November 2020 | n/a |

1 Gordon Boyd was appointed to the Board on an interim basis and does not have a notice period.

## Non-executive directors' terms of engagement

| Non-executive directors | Date of joining the Board | Expiry date of current appointment |
|---|---|---|
| Sir Ian Powell | 1 September 2016 | 31 December 2022 |
| David Lowden | 1 January 2021 | 31 December 2023 |
| Matthew Lester | 1 March 2017 | 28 February 2023 |
| Georgina Harvey | 1 October 2019 | 30 September 2022 |
| John Cresswell | 17 November 2015 | 16 November 2021 |
| Andrew Williams | 1 January 2015 | 11 May 2021 |
| Baroness Lucy Neville-Rolfe | 6 December 2017 | 5 December 2023 |
| Neelam Dhawan | 1 March 2021 | 29 February 2024 |

## Board changes

As per the announcement on 16 November 2020:

- Patrick Butcher stepped down from his position as CFO and Executive Director with immediate effect. Details of his exit arrangement are as follows:
  - Patrick will receive base salary, cash in lieu of pension contribution and benefits up to the date he leaves (31 March 2021). No further payments in lieu of his remaining 12-month notice period will be made
  - there will be no payment under any variable pay arrangement – the annual bonus was withdrawn for 2020 and he is not eligible to participate in the 2021 annual bonus plan. All unvested long-term incentive/buyout awards have lapsed. There will be no further payments in respect of his exit and no payment for loss of office.
- Gordon Boyd was appointed to the Board on a short-term contract of £100,000 per month and is not entitled to any further remuneration in respect of pension, bonus or share awards. While the committee notes that the fee payable is significant, when compared to Patrick Butcher's fixed package:
  - given the Company was partway through a Class 1 transaction under the Listing Rules (ie the sale of ESS) and furthermore the very sensitive nature of many of Capita's contracts (including a number with the UK Government), the Board considered it essential to identify and appoint a very senior interim CFO to the Board, and one who would be known to/recognised by our major shareholders to bridge the gap until a permanent appointment can be made
  - the arrangement was benchmarked against a number of external interim candidates and found to be in line with the market rate for senior interim chief financial officer roles (albeit clearly very few of these are Board level appointments meaning that published data is limited)
  - the annualised fee broadly equates to Patrick Butcher's on-target total remuneration of £1.28m.

## Payments to former directors (audited)

No payments were made to former directors.

## External appointments for executive directors

During the year Jon Lewis served as a non-executive director for Equinor ASA. He received and retained fees of NOK 592,080 for the period 1 December 2019 – 30 November 2020. The committee acknowledges this role can benefit Capita through broadening Jon's knowledge and experience.

## Percentage change in remuneration levels

The table below shows change in base compensation, benefits and annual bonus for the Board directors in the 2020 financial year, compared with the average for all employees of the Company (Capita plc):

| | Base salary/fees | Taxable benefits | Annual bonus |
|---|---|---|---|
| **Executive directors**[1] | | | |
| Jon Lewis | -12.5% | -36.9% | – |
| Patrick Butcher[2] | -12.5% | -10.8% | – |
| Gordon Boyd | – | – | – |
| **Non-executive directors**[1] | | | |
| Sir Ian Powell | -12.5% | -100.0% | – |
| Gillian Sheldon | -12.5% | – | – |
| Matthew Lester | -12.5% | – | – |
| Georgina Harvey[3] | -12.5% | – | – |
| John Cresswell[4] | -12.5% | – | – |
| Andrew Williams | -12.5% | – | – |
| Baroness Lucy Neville-Rolfe | -12.5% | – | – |
| Lyndsay Browne[3, 5] | -12.5% | – | – |
| Joseph Murphy[3, 5] | -12.5% | – | – |
| Employee population[6] | 5.5% | 20.6% | -35.2% |

1. The percentage change shown for the directors is based on the single figure information disclosed on page 102.
2. Patrick Butcher stepped down from the Board on 16 November 2020. For comparative purposes, his 2020 salary and benefits have been annualised to show the percentage change since 2019.
3. Georgina Harvey, Lyndsay Browne and Joseph Murphy were appointed to the Board during 2019. The percentage change numbers shown are based on annualised fees for 2019.
4. John Cresswell stepped down as Remuneration Committee Chair on 30 September 2019. The percentage change numbers are reflective of his role as a non-executive director of the Board and not his prior role as Remuneration Committee Chair.
5. Percentage change numbers shown relate to fees as a non-executive employee director.
6. The employee population information shown is for UK employees employed in the Capita plc entity.

## CEO pay ratio

The table below compares the 2020 single total figure of remuneration for the CEO with the Group's employees paid at the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile) of its UK employee population. The equivalent 2019 numbers are also presented.

| Year | Method | 25th percentile pay ratio | 50th percentile pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| **2020** | **Option B** | **56: 1** | **41: 1** | **27: 1** |
| 2019 | Option B | 41:1 | 25:1 | 14:1 |

The remuneration figures for the employee at each quartile were determined with reference to the financial year ending 31 December 2020. Due to the complexity of Capita's corporate and workforce structure, Option B was used to calculate these figures. The committee believes that this approach provides a fair representation of the CEO to employee pay ratios and is appropriate in comparison to alternative methods, balancing the need for statistical accuracy with internal operational constraints.

Each employee's total pay and benefits were calculated on a full-time and full-year equivalent basis using the single figure methodology. No adjustments were made to the total pay and benefits figures (other than the approximate up-rating of pay elements where appropriate to achieve full-time and full-year equivalent values) and no components of pay have been omitted.

| Year | | 25th percentile | 50th percentile | 75th percentile |
|---|---|---|---|---|
| **2020** | **Salary (total pay and benefits)** | **£19,310 (£19,753)** | **£26,800 (£27,431)** | **£40,371 (£41,039)** |
| 2019 | Salary (total pay and benefits) | £18,887 (£19,147) | £29,493 (£31,708) | £53,846 (£57,049) |

The committee recognises that the 2020 ratios are higher than last year. This is driven by two key factors:

- The primary driver of the change is the increase in the CEO's single figure of remuneration for 2020. The 2019 single figure included no bonus or LTIP vesting (as the CEO's first LTIP award was granted in 2018). In contrast, the 2020 single figure includes 60% vesting under the 2018 LTIP award. Despite the 25% reduction in fees for six months, the 2020 single figure therefore represents a 41% increase on last year's single figure, leading to an increase in the pay ratios.
- A reduction in the calculated total pay and benefits of the median and upper quartile employees. This is driven by a change in the employee population used for the calculation (as agency workers are now excluded from our gender pay gap calculations), and does not represent a real reduction in pay for employees. Furthermore, consistent with the CEO, no annual bonuses were payable to employees in respect of 2020.

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

## Gender pay gap reporting

Information on the Company's gender pay gap reporting is detailed on page 46 of the strategic report.

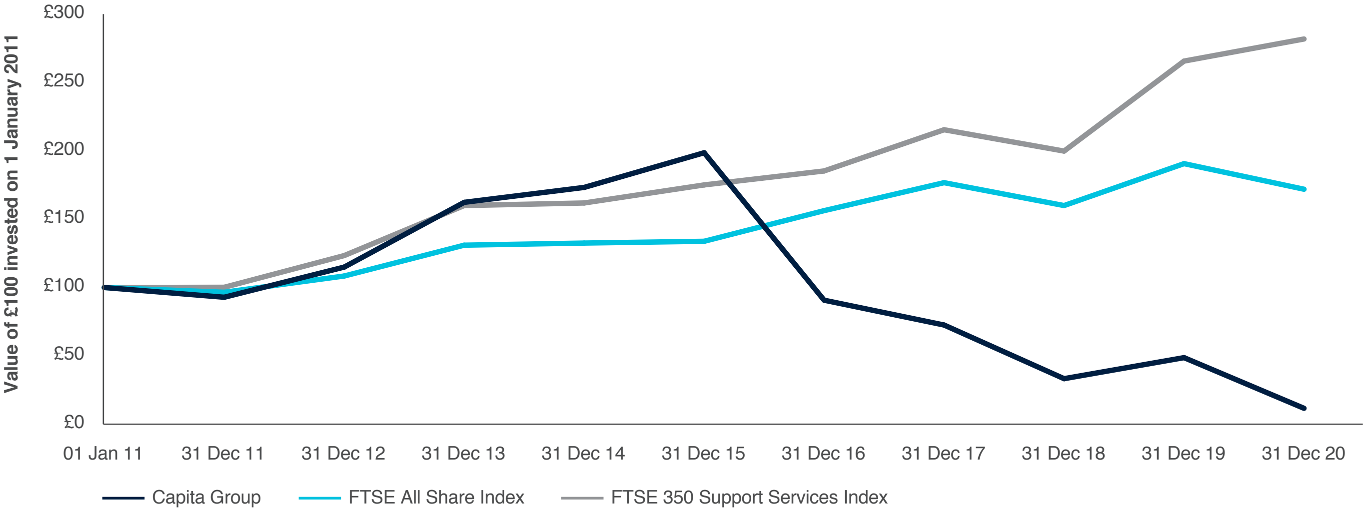
## Relative importance of the spend on pay

The table below shows the spend on employee costs in the 2020 and 2019 financial years, compared with dividends:

| | **2020 £m** | 2019 £m | % change |
|---|---|---|---|
| **Employee costs** | **1,795.6** | 1,919.9 | -6.5 |
| **Dividends** | **–** | – | – |

## Performance graph and CEO pay

The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All-Share Index and the FTSE 350 Support Services Index over the last 10 years, assuming that all dividend income is reinvested. The FTSE 350 Support Services has been chosen as the appropriate comparator as Capita is a constituent of this index.




The total remuneration figures for the CEO during the 2020 financial year are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus payout and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

| Year | CEO – single figure of total remuneration | Annual bonus (vs max opportunity) | Long-term incentive (vs max opportunity) |
|---|---|---|---|
| 2020 | £1,112,325 | 0% | 60% |
| 2019 | £789,678 | 0% | 0% |
| 2018 | £2,014,209 | 85% | 0% |
| 2017 | £741,376 | 0% | 0% |
| 2016 | £682,958 | 0% | 0% |
| 2015 | £2,520,428 | 50% | 71.4% |
| 2014 | £2,558,998 | 100% | 67.2% |
| 2013 | £2,326,250 | 75% | 54.5% |
| 2012 | £2,038,233 | 100% | 47.8% |
| 2011 | £1,833,308 | 0% | 56.0% |

Note: the vesting rates for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2010–2013 and 2015. For 2014, this is the actual vesting for the LTIP as there is no DAB maturity in 2014. Note: figures for 2010–2013 are based on remuneration for Paul Pindar. Figures for 2014–2016 are based on remuneration for Andy Parker. Figures for 2017 are based on remuneration paid to Andy Parker as CEO until 15 September 2017, to Nick Greatorex as interim CEO from 16 September 2017 to 30 November 2017, and to Jon Lewis as CEO from 1 December 2017.

**Approval of the directors' remuneration report**

The directors' remuneration report was approved by the Board on 16 March 2021.

**Georgina Harvey**
Chair
Remuneration Committee
16 March 2021