Our purpose

Capita is a purpose-led organisation which exists to ‘create better outcomes’ for all its stakeholders.

Our stakeholders

We create better outcomes for:

Our people	by providing an environment in which they can thrive and develop
Clients and customers	by delivering solutions, transforming businesses and services, and by delighting them
Suppliers and partners	by treating them fairly and encouraging them to deliver
Investors	by delivering improving returns
Society	by acting as a responsible business for the communities we serve

Read more on stakeholder engagement on pages 38 and 39

Cautionary statement
The directors present the Annual Report for the year ended 31 December 2020, which includes the strategic report, corporate governance, and audited accounts for this year. Pages 1 to 108 of this Annual Report comprise a report of the directors which has been drawn up and presented in accordance with English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Where the directors’ report refers to other reports or material, such as a website address, this has been done to direct the reader to other sources of Capita plc information which may be of interest. Such additional materials do not form part of this report.

Our values

Everyone at Capita strives to create better outcomes for all our stakeholders by living our values of being:

- Open
- Ingenious
- Collaborative
- Effective

We bring these values to life through our day-to-day behaviours and by putting our purpose at the centre of everything we do.

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

Our response to Covid-19

Capita has provided a resilient response to the challenges of the pandemic. More details can be found in the CEO's review on page 10 and on our website. Details of our Covid-19 framework can be found on page 8.

capita.com/our-thinking

Group performance

Financial performance

Adjusted revenue[1]
£3,181.2m
(2019: £3,501.0m)

Reported revenue
£3,324.8m
(2019: £3,678.6m)

Adjusted profit before tax[1]
£65.2m
(2019: £197.7m)

Reported loss before tax
£(49.4)m
(2019: £(62.6)m)

Adjusted earnings per share[2]
4.19p
(2019: 9.30p)

Reported loss per share
(0.41)p
(2019: (4.18)p)

Adjusted free cash flow[3]
£238.6m
(2019: £(23.2)m outflow)

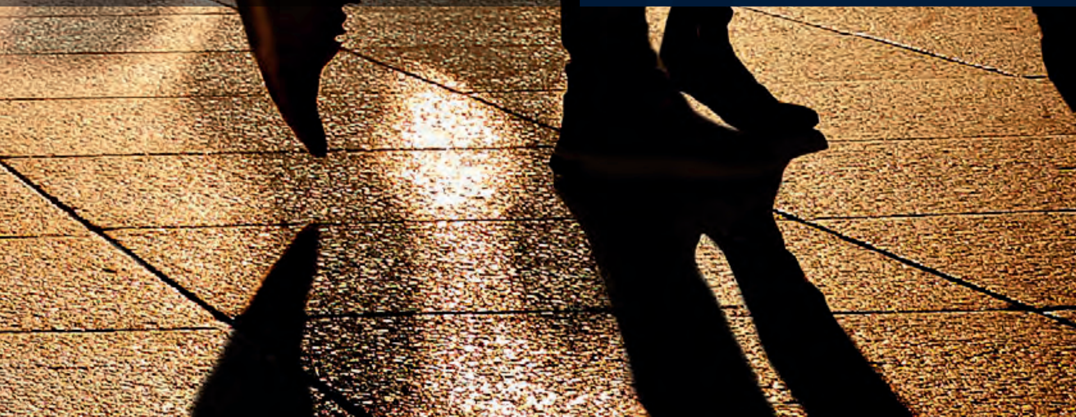
Reported free cash flow
£303.8m
(2019: £(213.0)m outflow)

Non-financial performance

Colleague engagement
Positive points swing in employee net promoter score (eNPS)
+7pts
(2019: +14pts)

Clients and customers
Positive points swing in customer net promoter score (cNPS)
+17pts
(2019: +22pts)

Adherence to fair business terms
Suppliers paid within 60 days
95%
(2019: 97%)



1. Refer to alternative performance measures (APMs) on pages 204 to 206.
2. Refer to note 2.7 to the consolidated financial statements.
3. Refer to note 2.10 to the consolidated financial statements.

About us

Capita is a consulting, transformation and digital services business.

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.

We do complex and difficult things so clients don't have to.

Part of the fabric of UK society, we help millions of people every day.

But we know that, to be a truly responsible business, Capita must change and improve; and that is why we are transforming – on behalf of our clients, the people and societies we serve, and all our stakeholders.

Our strategy

Our plan is to do fewer things, better

We are simplifying and strengthening to succeed as a business that: is truly responsible and predictable; generates sustainable revenue growth and cash flows; simplifies services, reduces costs and frees up time; creates better experiences for end-customers; is innovative and creative; has an improved reputation, based on competence and integrity; and creates better outcomes for all stakeholders.

Simplify | Strengthen | Succeed

Simplify

- More focused business with strong positions and growth potential
- Using common, scalable capabilities
- Empowering our people to deliver
- Further streamlined cost base

Strengthen

- Winning more of the right work
- Improving cash generation
- Non-core disposal proceeds to pay liabilities
- Extend debt maturities
- Investment in asset base, technology and people

Succeed

- Progressive, purpose-led, responsible business
- Innovative and creative
- Generates sustainable revenue growth and cash flows in 2022

Our people

Capita is the UK's largest business processes outsourcing (BPO) provider with 37,000 employees across the country.

But we also deliver services, develop software and digital solutions, and provide support functions across a global network, with more than 18,000 of our overall 55,000 people based outside the UK. We have around 7,000 colleagues in India, 3,900 in South Africa, and others in Germany, Ireland, Poland, Switzerland, the United Arab Emirates and the United States.

The new Capita is a consulting, transformation and digital services business whose purpose is to deliver better outcomes for all its stakeholders – and which values all its people, whatever their roles and wherever they work.

More about our people strategy can be found on pages 40 to 43.

Our clients

We work across a range of sectors, partnering with our clients and providing the insight, innovative solutions and cutting-edge technologies that give time back, allowing them to focus on what they do best and making people's lives easier and simpler.

Private sector
- Financial services
- Pensions
- Retail
- Telecoms and media
- Transport
- Energy and utilities

Public sector
- Central government
- Local government
- Education
- Defence and security
- Health and welfare
- Justice and emergency services

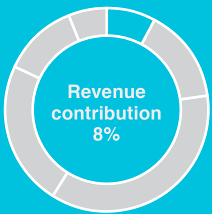
Our divisions

Capita has six operating divisions: five – Software, People Solutions, Customer Management, Government Services, and Technology Solutions – are focused on key growth markets; and the sixth, Specialist Services, contains standalone businesses being managed on a portfolio basis to maximise value. The six divisions are supported by a common set of company-wide capabilities and functions.

Growth platforms

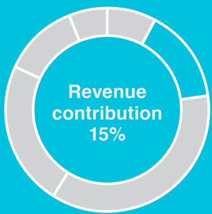
Software

Vertical market, specialised, enterprise products and services



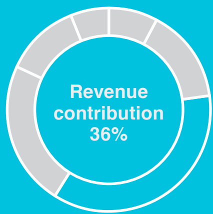
People Solutions

Integrated human resources services and products



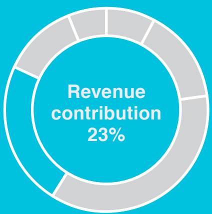
Customer Management

Transforming customer experience for our clients



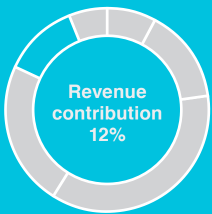
Government Services

Tech-enabled, public sector business services



Technology Solutions

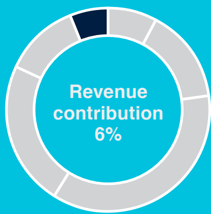
Digital IT and connectivity solutions



Value platform

Specialist Services

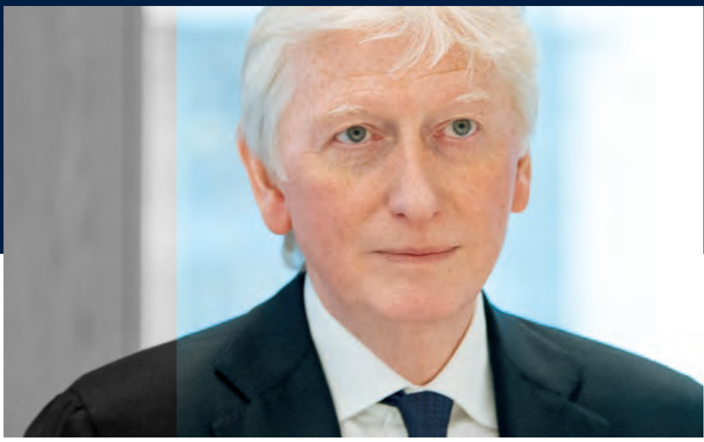
Standalone businesses managed for value



Divisional details and performance can be found starting on page 26.

Divisional financial performance (see pages 26 to 37) is presented on an adjusted basis. Reported is not included, as the Board assesses divisional performance on adjusted results. The calculation of adjusted figures and our key performance indicators (KPIs) are contained in the APMs on pages 204 to 206.

A challenging year



"Our purpose – to 'create better outcomes' for all stakeholders – remains fundamental to the company's transformation."

Sir Ian Powell
Chairman

As for so many businesses, 2020 was a tough year for Capita and its people. The organisation is part-way through a complex, multi-year transformation which, despite continuing progress, was already proving harder than we had originally envisaged.

The impact of the Covid-19 crisis disrupted some of our plans; and it proved to be a disappointing year for our investors, of which we remain acutely conscious. I would like to thank our shareholders for their patient and continued support.

Our purpose – to 'create better outcomes' for all stakeholders – remains fundamental to the transformation of the company. Underpinned by our commitment to that purpose, the professionalism of our 55,000 people has allowed us to navigate our way through the pandemic – and we ended the year with evidence of renewed momentum.

I would like to thank all our colleagues for their hard work and commitment during such difficult times, and also our clients for working with us so collaboratively to help counter the exceptional challenges of the Covid crisis.

Strategy and performance

Significant progress has been made in many aspects of Capita's transformation over the past three years; and the actions taken to address underinvestment in many key areas, together with operational and cultural changes, enabled us to deliver a decisive and resilient response to the pandemic.

The controls and technology systems were in place for a strong senior leadership team to adapt to the crisis at very short notice; and it allowed us to bring the wellbeing of our employees to the top of our agenda and ensure the vast majority of our people could very quickly work from home. At the same time, we were able to continue to deliver services to our clients and customers in a safe and secure way. Both our employee and customer net promoter scores rose in 2020.

Financially, we weren't able to deliver the growth that was planned, but through our response we addressed the challenges of a significant fall in revenue and profit with robust cost and cash action, and with a strong focus on the balance sheet. By the end of 2020, positive signs had emerged: we had secured a number of disposals, signed significant new contracts and had a healthy pipeline in place.

We will continue to implement our 'simplify, strengthen, succeed' strategy, which has guided the transformation so far. Our priority in 2021 is to continue to further strengthen the balance sheet, through a combination of refinancing our current debt arrangements and continuing with the disposal of non-core businesses.

The Board is also pleased to have announced the next phase of our transformation, consolidating the current divisional structure to continue to remove complexity and create a more focused, client-centric and streamlined business; more details of this are outlined in the Chief Executive Officer's review on page 10.

The Board and governance

We have continued to improve the governance of the company, at both Board level and across the wider organisation. We seek to make sure that we have the right senior management team in place, supported and challenged by the Board, to take the company forward. As part of that, we are grateful for the contribution played in such a short space of time by Gordon Boyd as interim Chief Financial Officer.

We have continued to keep the constitution of the Board under review, aiming to bolster its increasingly impressive range of knowledge, skills, diversity and perspectives. The

> "I am confident we will continue to make progress towards becoming a more profitable, sustainable business for the long term."

Our values and behaviours remain more relevant than ever.

VALUES — V — Our values define who we are as an organisation

OPEN — O — We are honest, transparent and respectful

INGENIOUS — I — We think about what's possible

COLLABORATIVE — C — We achieve more when we work together

EFFECTIVE — E — We care about doing the best job we can

Community investment

£2.1m

(2019: £2.8m)

For more information about our community investment, go to: www.capita.com/responsible-business

contribution of our two employee directors, Lyndsay Browne and Joseph Murphy, has been significant, providing a vital perspective.

The recent appointments of non-executive directors David Lowden and Neelam Dhawan have been very positive moves and will benefit Capita hugely. As a former chief executive, chairman and director, David brings extensive strategic and board skills; while Neelam's wealth of leadership and board experience will provide us with a fresh global and technology perspective.

I would like to thank all the Board members for their hard work and great flexibility during such a challenging year. I would also like to thank outgoing directors Gillian Sheldon and Andrew Williams for their significant contributions throughout their long tenures; as well as Patrick Butcher, former Chief Financial Officer, for the important part he played in our ongoing transformation.

Values and culture

The real test of a corporate purpose is how it manifests itself in a crisis and ours has proved resilient during the Covid pandemic. It has continued to guide the company and our people, even while they have faced such disruption in their lives at work and at home.

The focus on our purpose, underpinning our drive as a responsible business, has also contributed to the continued improvement in Capita's reputation. This has in turn – alongside our turnaround in operational performance, and improved client relationships and levels of trust – helped strengthen our ability to win important new work.

Diversity remains an especially strong focus for us. As for so many organisations, the killing of George Floyd and the subsequent issues raised by the Black Lives Matter movement was a seminal moment for Capita. We recognised that the actions we were taking to create an inclusive workplace for many of our Black, Asian and minority ethnic colleagues were not happening fast enough. We therefore instigated a series of practical and strategic actions to tackle racism, as well as to enhance ethnic diversity.

We are very conscious, however, that we need to do more to increase diversity and inclusivity in all parts and at all levels of the organisation. We also remain committed to improving our gender pay gap which continues to disappoint. We strive to be a truly responsible business, mindful of our place in society and the communities we serve, and of our responsibility to people and the environment.

Looking forward

There remains a large amount of work still to do to ensure a stable, sustainable and less complex Capita; but there was material progress in 2020, despite the disruption caused by the pandemic.

This progress needs to manifest itself in terms of better financial performance. We need to focus on restructuring the balance sheet to give the business a stable financial base, and we must deliver improving returns to investors.

However, as we move onto the next phase of our transformation – and look to further simplify and strengthen – I am confident that we will continue to make progress towards Capita becoming a more profitable, sustainable business for the long term, for the benefit of its people, clients and customers, suppliers and partners, investors, and society.

How we create value

Capita is a consulting, transformation and digital services business. We are focused on creating value and better outcomes, by working collaboratively with our clients as partners. We provide consulting and professional services, drawing on our practical experience; provide digitally enabled services and solutions, often under multi-year contracts; and sell software licences and support. We consult, transform and deliver.

Our expertise and resources

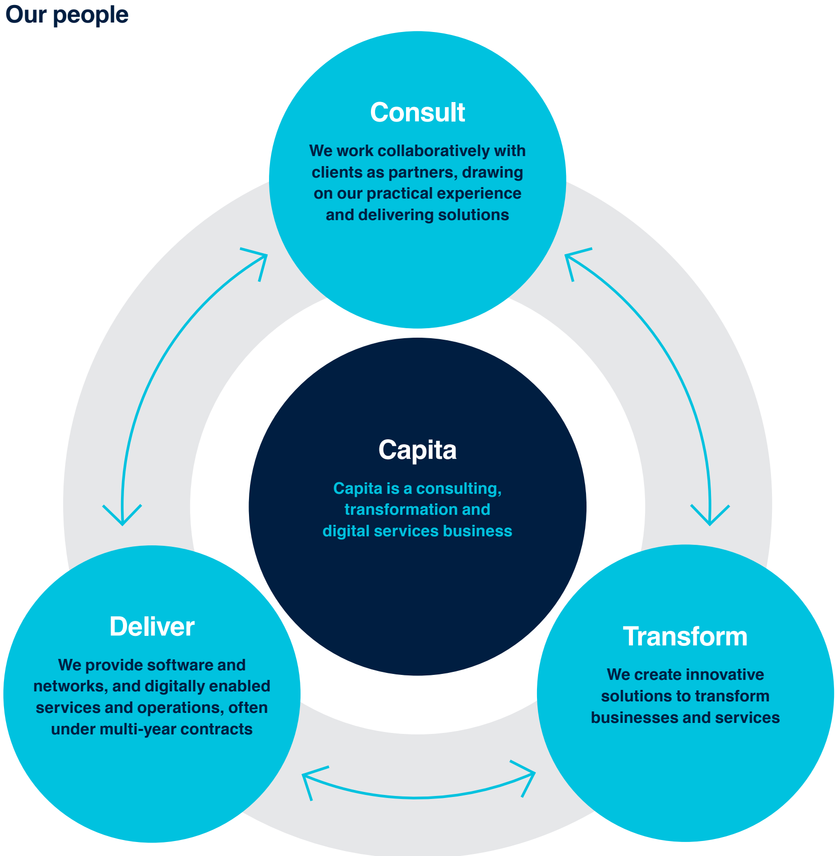
Market expertise
We have deep understanding of our clients and their markets; for example, in customer engagement, government services, recruitment processes and technology solutions.

Technological resources
We offer technology-led, digitally enabled services and solutions. We are investing in digital and software development. We partner with global technology leaders.

Client relationships
We form longstanding partnerships with a wide range of clients, from blue-chip businesses to the public sector, to transform their businesses by delivering insight and innovative solutions.

Our people
We are a people-focused business, built around 55,000 skilled and committed employees who have deep understanding of our clients' markets and needs.

International infrastructure
We have growing international operations, with more than 18,000 people delivering technology solutions and customer engagement services, principally in Europe, India and South Africa.



What we do as a business

At Capita, we provide consulting, transformation and digital services.

Our consultants:
- Work collaboratively with clients as trusted consultants and long-term strategic partners
- Proactively identify opportunities within client businesses
- Generate forward-looking insights by analysing, researching and debating trends and data
- Support the design, development and implementation of better solutions for clients
- Maximise opportunities on behalf of all Capita, driving our pipeline and creating pull-through revenue

Our transformation services:
- Improve process quality, reliability and efficiency
- Help reduce risk and cost
- Create new opportunities for clients
- Allow clients to focus on what they do best

Our digital services:
- Help simplify clients' services
- Assist better decision making
- Provide information
- Contribute to process acceleration
- Free up time
- Improve end-customer experiences

Generating financial value

We operate in large and growing markets, at scale and often with significant market share. We generate revenue, profit and cash flow by providing valuable services to our clients, consistently and efficiently over the long term.

Transformational services

Clients procure our digitally enabled services and network solutions through contracts, often long-term, to effect significant change in their businesses. In 2020, approximately 88% of Group revenue was underpinned by contracts of one year or more. Our order book at 31 December 2020 was £5.9bn.

Software licences and services

We provide clients with business-critical software products, earning recurring revenue from implementation, annual licence fees and revenue from 'software as a service' arrangements. Approximately 8% of adjusted revenue[1] is derived from Software.

Transactional services

Approximately 12% of adjusted revenue[1] comes from our transactional businesses where we sell products and professional services to our clients across a wide range of functions. In 2020 this represented £393.2m of adjusted revenue[1], reflecting a particular impact from Covid-19.

Efficient operations

Running our business as efficiently as we can allows us to pass savings through to our clients and customers over the long term, as well as generating value for our stakeholders. During 2020, we delivered transformation cost savings of £145.2m by reducing the cost of poor quality, structuring our business better and adopting efficiency-generating technologies such as automation.

Generating cash flow

In the early stages of our multi-year turnaround we committed significant funds to fixing and stabilising the business to reduce the significant cash cost of poor quality. During 2020 we improved adjusted free cash flow[1] from £(23.2)m to £238.6m.

1. Refer to alternative performance measures (APMs) on pages 204 to 206.

Better outcomes for stakeholders

We are focused on creating better outcomes for all our stakeholders.

Our people

by providing an environment in which they can thrive and develop

+7pts

Positive points swing in employee net promoter score (2019: +14pts)

Clients and customers

by delivering solutions, transforming services and delighting them

+17pts

Positive points swing in customer net promoter score[1] (2019: +22pts)

Suppliers and partners

by treating them fairly and encouraging them to deliver

95%

Suppliers paid within 60 days[2] (2019: 97%)

Investors

by delivering improving returns

£238.6m

Adjusted free cash flow[3] (2019: £(23.2)m outflow)

Society

by acting as a responsible business for the communities we serve

40%

Reduction in carbon footprint[4] (2019: 5.9%)

Read more about our stakeholders on page 38 and 39.

1. Measured from 2017 baseline via our annual client survey, demonstrating the number of clients who would recommend Capita as a supplier.
2. Data includes invoices paid through Capita UK companies.
3. Refer to note 2.10 to the consolidated financial statements.
4. Reduction in carbon footprint based on emissions per headcount from 2018 baseline.

Capita and its people have, like thousands of other businesses, faced numerous challenges and uncertainties over the past 12 months.

But, thanks to the hard work and professionalism of our colleagues, we have delivered a strong operational response to the Covid-19 crisis. This has only been possible due to the actions already taken and changes previously made as part of our multi-year transformation strategy to simplify and strengthen the organisation.

Impact on operations

Our priority throughout the Covid-19 crisis has been to protect the welfare and safety of our colleagues.

85%
of people working from home at the height of the pandemic

21,500
average visits per month to the Wellbeing Hub since its launch in April 2020

+7pts
movement in employee net promoter score (eNPS)

6%
of colleagues furloughed at peak

Discover how we are helping customers evolve for a new tomorrow
www.capita.com/evolving-tomorrow

Our Covid-19 framework

01 Review

Early monitoring of the developing external situation and internal health and guidance. Business continuity preparations and scenario planning begins.

02 Respond

Endurance as we manage the crisis and protect the health safety and wellbeing of colleagues. The way we work adjusts to ensure business continuity and stability in the 'eye of the storm'.

03 Reimagine

Ongoing sense of stability is established as we begin to emerge from the crisis. This temporary 'new normal' allows us to begin planning for the future ways of working.

Financial impact

While the majority of our revenue remained resilient, our transactional and face-to-face operations were significantly affected. Covid-19 has been net negative for Capita.

5%
of adjusted revenue[1] lost (£153m)

£105m
total contract value (TCV) of Covid-related wins

£122m
cash preservation savings

119
locations temporarily closed at peak

£32m
travel savings – expected to continue

Client response

We took decisive action to ensure that we maintained a high level of service for our clients.

90%
compliance with operational KPIs (2019: 91%)

11.2m
letters sent to vulnerable people on behalf of the NHS

70,000
children protected through provision of safeguarding monitoring

10,000
council and NHS trust staff helped with remote working infrastructure

13,600
devices delivered to disadvantaged children

Reimagining our future

We can make some of the benefits of Capita permanent. We are talking to our people and clients to define future ways of working.

77%
of employees now want to spend the majority of their time working from home

49
permanent property closures

11%
reduction in office space in 2020; a further 15% expected in 2021

1. Refer to alternative performance measures (APMs) on pages 204 to 206.

04

Return

The transition to future ways of working begins, although social distancing and modified ways of working are still required to manage the ongoing risks of Covid-19.

05

Reform

Following the end of the crisis, supporting health and wellbeing remains a priority as we fully embrace the changes we have made. Our future ways of working become reality and the new normal is business as usual.

Maintaining progress

"Capita is a much better business than it was at the start of the transformation, with stronger positions and improved growth prospects."

Jon Lewis
Chief Executive Officer

We started 2020 expecting to continue to strengthen the business operationally and to deliver more evidence of improvement – to be reflected in modest revenue growth and significant free cash flow generation.

We continued to make progress with many aspects of our transformation, but the impact of Covid-19 set us back and increased some of the challenges we faced.

I am pleased with our operational response to the pandemic, prioritising our colleagues and ensuring we could continue to deliver for our clients. The majority of our revenue has been resilient and we took decisive cost and cash action to manage the impact where it affected us. I do not believe we would have achieved this without the progress made in strengthening Capita over the preceding two years.

Adjusted revenue
£3,181.2m
(2019:£3,501.0m)

Adjusted profit before tax
£65.2m
(2019:£197.7m)

The fall in revenue and profit due to Covid-19 has put pressure on our balance sheet. But our cash preservation initiatives ensured that we met our covenant obligations, with net debt significantly better than at the end of 2019. We also took the decision to accelerate strategic actions to provide further financial support and dispose of non-core software assets, including Education Software Solutions (ESS), which sold for initial proceeds of £299m.

Despite the challenges of 2020, Capita is a much better business than it was at the start of the transformation, with stronger positions and improved growth prospects. With a more solid operational foundation in place, we are now moving onto the next phase of our transformation plan to 'simplify, strengthen and succeed'. We will be consolidating our current structure into three divisions. This comprises two core divisions – Capita Public Service and Capita Experience – focused on specific client needs and distinct markets where we know we can win. We will also have a third, enlarged portfolio of non-core businesses we intend to exit in due course; and a smaller overhead, generating additional long-term cost savings.

With respect to the balance sheet, our focus in 2021 is to ensure that we meet our upcoming debt maturities of £440m over the next two years, and put in place a longer-term financing solution. We have therefore started the process to extend our revolving credit facilities and we are targeting gross disposal proceeds of at least £700m, comprising £200m from three non-core disposals currently under way, and ESS proceeds of £299m that we have now received, with another £200m to come thereafter. Further support comes from benefits of the planned new structure and lower 'below the line' cash costs. We plan to issue longer-term debt when market conditions allow.

Our simpler new structure will support our inflection to sustainable cash generation in 2022 – as we continue to build a more focused, client-centric and streamlined business.

"With a more solid operational foundation in place, we are now moving onto the next phase of our transformation plan."

Better outcomes

We have been chosen to transform and modernise the Royal Navy's shore-based training across 16 sites in the UK as the lead partner in a consortium called Team Fisher. The contract, worth an estimated £1bn over 12 years, will see us leading the delivery of the new training programme, utilising our expertise in transformation, learning and the delivery of complex, technology-enabled defence projects. We are partnering in the consortium with Raytheon UK, Elbit Systems UK, and Fujitsu, as well as with several smaller British suppliers.

> "Our priority throughout the Covid crisis has been to protect the welfare and safety of our colleagues."

Financial results

Our financial performance in 2020 was significantly affected by the impact of Covid-19, despite the resilience of our operational response. To protect the business we took action to save a further £122m and, as a result, we were able to meet our covenant obligations at the year end and reduced net debt to £1,077.1m.

Adjusted revenue[1,2], fell by 9% during the year to £3,181.2m (2019: £3,501.0m) as a result of the impact of Covid-19, particularly on our transactional businesses such as Capita Travel & Events and Pay360, as well as due to prior-year contract losses in areas such as local government. This was partially offset by encouraging contract renewals and wins, as well as Covid-related work, mostly for the Government.

Adjusted profit before tax[1,2] decreased to £65.2m (2019: £197.7m), reflecting the loss of high-margin Covid-impacted transactional revenue and revenue from lost contracts, mitigated by a combination of £145.2m of planned transformational cost savings and £122m of cost and cash preservation taken in response to the pandemic. Including the impact of restructuring costs and accounting adjustments, reported loss before tax was £49.4m (2019: £62.6m loss). Reported earnings per share was (0.41)p (2019: (4.18)p).

Our strong cash performance in the year included strong working capital management and other short-term measures taken to protect the business, with around £50m expected to be sustainable. Adjusted free cash flow[1] increased to £238.6m (2019: £23.2m outflow) as we improved cash from trading operations, reduced capital expenditure significantly, and from strong client cash collection. The overall improvement in net debt was boosted by cash preservation benefits such as the £118.8m VAT deferral, offsetting cash costs of restructuring of £64.1m. Net debt at 31 December was £1,077.1m (2019: £1,353.2m) and we were well within the covenants.

Net debt

£1,077.1m

(2019: £1,353.2m)

Response to Covid-19

Our priority throughout the Covid-19 crisis has been to protect the welfare and safety of our colleagues and I would like to thank them all for their dedication. In February 2020, we set up a pandemic planning team and, within a few weeks, we had successfully mobilised 85% of our people to work from home, while ensuring we had secure workplaces for key workers who needed them.

Reflecting the critical nature of many of the services we provide to our clients, most of our revenue remained resilient. We delivered client services on a remote basis, building software and digital platforms, managing IT solutions and shifting to remote provision. However, we have been significantly affected in areas such as our travel business, and where our work is transactional and therefore affected by lower economic activity.

Offsetting this impact, we secured c.£100m of Covid-related business in 2020, including providing 1,200 contact-centre workers to a Government department and sending 11.2 million letters to the vulnerable on behalf of the NHS.

We won work in the private sector, where our resilient delivery model and onshore location meant we could offer services to key retail and telecoms clients that some of our major competitors could not.

We implemented a range of cost-saving initiatives to mitigate the revenue impact of the pandemic, sustaining these through the second half of the year and into 2021. We achieved £122m of savings in total, including discretionary expenditure of £64m, staff-related savings of £48m, and £10m mainly in variable property costs, as we temporarily closed 168 of our 294 properties at the height of the first lockdown.

We have also participated in the Government's VAT deferral scheme, benefiting the Group by £118.8m; postponed £56.7m of scheduled additional pension contributions; and entered into receivables financing arrangements. We expect these temporary cash saving measures to be paid back over the next 12 months.

Our experience with Covid-19 has enabled us to take steps to sustain some of the benefits and cost savings, mainly in travel and property.

Operationally, we have demonstrated to clients that remote working can be secure and productive, while maintaining our service KPIs. This has given fresh impetus to rationalising our property footprint. We have permanently closed 11% of our floor space in 2020, including our head office in London. We are now moving to a more flexible workspace model, allowing collaboration when needed but also recognising that our people want to spend more time working at home than before the pandemic. We plan to reduce office space by another 15% in 2021.

Responsible business

Being a responsible business continues to be a fundamental part of Capita's strategy. Putting our purpose – to create better outcomes – at the centre of all we do will benefit all of our stakeholders in the long term and has helped improve our reputation sentiment with external stakeholders.

In 2020, we delivered on our commitment to pay our UK employees the real living wage as a minimum. Our employee engagement continues to make progress, although there is clearly much more to be achieved. The employee net promoter score (eNPS) maintained its upward trajectory, increasing by seven points during the year and up 21 points since 2018.

We value our relationships with our suppliers, spending £2bn in 2020 with more than 24,540 direct suppliers in 87 countries. We pay 95% of our suppliers in 60 days or less, in line with the Government's prompt payment code. We are

1. Refer to alternative performance measures (APMs) on pages 204-206.
2. Adjusted results for both 2020 and 2019 exclude Education Software Solutions (ESS) as it is a business exit at 31 December 2020. ESS adjusted revenue and adjusted profit before tax in 2020 were £90.6m and £51.3m respectively. Covenant calculations adjust for ESS being excluded from EBITDA.

"Our eNPS increased by seven points."

now looking to strengthen relationships with smaller suppliers.

Throughout 2020, we maintained our focus on our environmental impact. We reduced our carbon footprint by 40%, as we reduced travel and vacated offices. We have published our first statement on climate-related financial disclosure in our 2020 Responsible Business report and, in February 2021, we were accredited by the Science-based Target Initiative for our company carbon reduction targets, which will form the foundation of our commitment to get to net zero.

Transformation: building for revenue growth

Our revenue each year comes from a combination of longer-term, committed contracts that we report in our order book, framework contracts whose volumes are variable (but usually reliable), and transactional revenue that is won in-year.

While our target to grow revenue for the first time in many years was significantly affected by the pandemic, our track record of winning business showed tangible signs of improving during 2020, as we saw the first benefits from our investment in our clients, our structure and our capabilities.

Total contract value (TCV) won in the year was £3.1bn, £233m more than in 2019, which included framework and transactional wins. This represented 8% growth in TCV, or 11% in our core divisions (excluding Specialist Services). Our contract renewal rate of 90%, based on further improved client relationships, was a key driver. We have started 2021 strongly, with a £1bn contract to train the Royal Navy for the next 12 years. As would be expected, we also lost some contracts that impacted the second half of 2020 and will have a further impact in 2021.

The Group's order book declined to £5.9bn in 2020 (2019: £6.7bn), with £2.4bn recognised as revenue in the year and £1.6bn won in order book-qualifying revenue. Book-to-bill has increased from 0.79x to 0.94x on a Group basis and, following the win of the Royal Navy training contract in January 2021, this has now risen to 1.26x.

An increasing amount of Capita's revenue comes from framework and transactional revenue. Revenue won that was recognised in 2020 (in-year revenue) was flat at £1.2bn, despite the significant Covid-19 impact. Customer Management and Government Services were particularly strong, increasing by 72% and 92% respectively, benefiting from: Covid-related work; extensions for Transport for London (TfL); and big framework wins, such as a renewal for a European telecoms client.

Better structured with the right tools

As set out in 2018, our transformation growth strategy has been to win work through improving the capability and discipline in our sales function. We are now leveraging our new customer relationship management (CRM) platform better, giving us more insight and capability to predict future revenue. During the year we refined processes and the quality of our pipeline data, impacting pipeline in Q1 2020. We are winning more of the right work through the discipline of our contract review committee (CRC). In 2020, we maintained an average double-digit margin on the bids processed by the CRC, although with a slightly lower-margin mix of work.

Focusing on the client

The way we sell and the way that clients want to engage has been changing. As we have simplified and strengthened across Capita, we have moved from selling one bespoke product to each client, to selling solutions based on standardised platforms and which bring people and products together from across Capita. We then use our sector and business insight to offer the right solution to a client need.

As we have invested in operational improvement, as well as offering more relevant and better propositions, we have seen strong support from our clients. We have seen another significant improvement in our customer net promoter score, which increased by 17 points from +15 to +32. In our top 20 accounts this focus translated into pipeline growth of 40%.

During 2020, we streamlined the portfolio to focus on high-value propositions, as we build our understanding of what, to whom, and where, we should be selling. As a result, during the year 80% of TCV sold derived from 20 value proposals, out of a total portfolio of around 120.

With stronger client perception and better propositions to sell, account management was a major part of our sales performance in 2020. 43% of our 2020 TCV was won from our top 20 client accounts. Notable wins during the year were the TfL congestion charge and ultra-low emission zone extension (£355m), the RPP army recruitment extension (£140m), a European telecoms client's new framework extension (£114m), and the Teachers' Pension extension (£60m).

Transition to consulting-led sales

A consulting-led business model remains a key part of our revenue growth proposition, securing pull-through transformational and delivery work, enabling us to move up the value chain, win more business and improve the margin mix of Group revenue. Despite being hit hard by Covid-19, consulting revenue in 2020 focused on a highly specialised team with deep expertise in government, financial services and critical infrastructure, alongside three core practice areas: data and AI; transformation; and cloud.

A significant example of a consulting-led innovative and data-driven client solution was for the Financial Services Compensation Scheme (FSCS). In the face of a surge of claims to the FSCS, Capita and the FSCS worked in partnership to design a solution using data, AI and automation to allow them to process regulated, highly-complex claims more quickly and accurately, at around 30% of normal cost and taking two years less than normal. Having built this platform, we see opportunities to use it in other regulated industries.

Our markets are also gradually changing in nature, away from traditional business process outsourcing (BPO) to higher value business process services (BPS) and business process as a service (BPaaS). As a market leader in UK Government BPS, where the solution is delivered through a combination of people and

2. Nelson Hall/Tech Market View
3. Tussell March 2020

a bespoke digital platform, we are now investing in BPaaS capabilities, which is a standardised, process-specific solution deliverable to many clients.

Consulting and transformation revenue comprised just over 15% of total Group revenue won in 2020. We expect to improve both margins and cash generation by increasing this type of revenue, as well as doing more BPS and BPaaS work.

Market positioning
Supporting the more client-focused approach, we are leveraging our strong market positions to bring more insight into our specific markets than competitors.

Capita is one of the biggest IT services suppliers[3] to the UK Government which spends around £1bn[4] each year with us. Through improved contractual delivery, we now have a stronger relationship with the Government at a time when they are increasingly targeting investment in digital services and IT infrastructure. We also have a strong private sector position as the biggest customer experience partner in the UK, with specific expertise in the financial services, telecoms and utilities sectors. When we bring our understanding of complex solutions together with specific digital capabilities and combine them with our IT ecosystem partners such as Microsoft Azure, AWS and Cisco, our competitive position is now very strong.

Our better service delivery, investment in digital and IT capabilities, and more targeted marketing activities have all contributed to an improved market reputation with existing and potential clients in our chosen markets.

Sales outlook
The outlook for 2021 is promising, with a strong unweighted pipeline of £9.7bn (2019: £8.0bn), out of a total unweighted pipeline of £18.2bn (2019: £16.9bn), including a big increase in Government Services. It also includes contract bids that were delayed from 2020, such as the Royal Navy training contract which has now been won.

Transformation: reducing cost and targeting margin increases

We have continued to target and deliver significant, sustainable cost reductions, through greater efficiency and structural 'cost-out' opportunities. In 2020, we secured a further £145.2m of transformation cost savings (4% of the total cost base), taking the total across the last three years to £305m of sustainable savings. This is in addition to the £122m of Covid savings in 2020.

> **"Better service delivery, investment in digital and IT capabilities, and more targeted marketing activities have all contributed to an improved market reputation."**

Contractual targets reached
90.3%
(2019: 91.4%)

Operational excellence and improvement
Despite the pandemic, we maintained our high level of service KPIs at 90.3% for 2020 (2019: 91.4%), including slightly better year-on-year performance in Customer Management, Government Services and People Solutions. This contributed to further improving our service credits, which reduced from £11m in 2019 to £4m in 2020.

We also significantly reduced the cash drag from major contracts, in particular in Government Services. The number of operationally and financially challenged contracts have reduced during the past two years from 16 to two (PCSE and Electronic Monitoring), where we expect to resolve key outstanding issues in 2021 and deliver significant benefits in 2022.

We are now also better at delivering large transformation projects. On RPP, we delivered another year of high KPI achievement; and our performance on the new Defence Fire and Rescue contract was exemplary, with all operational KPIs delivered on target, good cost and cash performance, and with additional revenue from contracts won to work at six more Ministry of Defence sites during the year.

We saved £73m in 2020 simply by doing things better, including from the benefits of operational maturity, process improvement, reducing our cost of poor quality and reducing margin erosion through performance failures.

Structural optimisation
One of the major objectives of the transformation has been the simplification of a highly complex and inefficient organisation. Leveraging data from our new HR platform, we have optimised structures to align with our target operating model, delivering efficiency and overhead savings of £25m in 2020 and we see similar opportunity in 2021.

Technology
We are making significant technology savings through better governance, major efficiencies driven by consolidation of resource from across the Group, and through associated third-party procurement savings as we consolidated our supplier base. These were £30m in 2020 and we have significant further opportunity in 2021.

We are bringing all of our IT services together to be managed in one place, giving clarity of management and more efficient use of resource, with lower future maintenance and investment costs. We also made further progress in consolidating our software development resource from across the divisions under the umbrella of the digital development centre in the UK and India.

Group and overhead costs
We accelerated our property consolidation programme, closing 49 offices in 2020 and reducing the office footprint. This delivered savings of £11m in the year, with an annualised run rate of £25m in 2021. Procurement savings also generated £4m of cost savings during the year, focusing on scale benefits, in particular as we consolidated previously fragmented third-party purchasing behaviours.

Better
outcomes

We signed a contract with the Department of Education to continue the administration of the Teachers' Pension Scheme. The extension, which is due to start in October 2021, is worth £60m over four years. We will continue to deliver a fully integrated administration service for more than two million TPS members which includes the collection of contributions from over 11,200 employers, and the calculation and payment of pensions to more than 700,000 pensioners and beneficiaries.

Next phase of the transformation

Over the past three years we have improved governance, addressed inefficiency, and focused on historical underinvestment and on delivering better outcomes for our clients. Capita is now a simpler business with a stronger operational platform to underpin its future development than it was in 2018. Last year we announced the disposal of our Specialist Services division, which is delayed but ongoing, as well as announcing our intention to dispose of non-core software products, starting with Eclipse and ESS. Structurally, our core business is now more orientated to growth markets and focused on our clients.

With this stronger foundation in place, we are now moving onto the next phase of our transformation, consolidating down to three divisions: two core divisions – Capita Public Service and Capita Experience – focused on distinct market and client needs and a third Capita Portfolio division. This will comprise an enlarged portfolio of valuable but non-core businesses of which we are not the best owner and which we intend to exit when appropriate, with proforma revenue of around £700m.

We now have a clearer insight into where we can win, with most of our 2020 contract wins in clearly defined and focused areas – in specific parts of the UK Government market and in our core Customer Management industries. Both Public Service and Experience will adopt our 'consult, transform, deliver' business model with an increasing focus on digital transformation work. This structure will in turn drive out complexity and require a smaller, leaner Group overhead, from which we expect to save £50m on an annualised basis from 2022.

Public Service will integrate and simplify our offering to government, currently spread across four divisions, to focus on addressing their need to implement policy, transform productivity and improve citizen experience. The UK Government market is currently worth around £69bn. The fastest-growing parts of that, at around mid-single digit CAGR growth, are business process and technology-enabled services. As the number one strategic supplier of IT and software, Capita is already well positioned in this large and growing market, with a 2021 unweighted pipeline of £3.5bn. The proforma revenue of this division is expected to be around £1.2bn.

Experience will bring together our experts in designing, transforming and delivering frictionless customer experiences for blue-chip clients, including our regulated businesses, and a number of assets from three of the existing divisions. The global market is worth around £56bn and expected to grow at around 5% pa for the next three years. Currently one of the customer experience market leaders in the UK, and with a solid foothold in Germany and Switzerland, Capita has an opportunity to leverage its sector expertise, digital ecosystem and global delivery centre to become a pan-European leader. The proforma revenue of this division is expected to be around £1.3bn.

We plan to complete this next phase of the transformation this year and will provide more detail to the markets later this year.

> "Capita is now a simpler business with a stronger operational platform to underpin its future development."

Balance sheet

Our focus in 2021 is to address our upcoming debt maturities and put in place a longer-term financing solution.

Our plan at the beginning of 2020 was that net debt would increase slightly, before the disposal of the Specialist Services portfolio, in order to complete key elements of the transformation; but thereafter sufficient sustainable free cash flow would be generated to allow us to reduce headline net debt to EBITDA to within our target range of 1x to 2x (pre-IFRS 16). We had also planned a bond issue to extend our debt maturities. We were, however, unable to do either of these in 2020.

Instead, we protected the balance sheet through successful cost and cash preservation and the bringing forward of our plans to dispose of non-core software products. We repaid £218.4m of maturing debt, remained well within financial covenants at both the half year and full year, and reduced net debt through a combination of good cash management, disposal proceeds and the deferral of VAT and pension payments.

In the short term, our priority is to lengthen our current debt maturity profile as our free cash flow strengthens and to continue to be able to invest in our business.

However, we face significant short-term loan note maturities, with £440m due over the next two years. We plan to address this as follows:

- We recently received proceeds of £299m from the completion of the ESS disposal, which provides £220m of available liquidity, with a further £45m contingent on CMA clearance of buyer Montagu's subsequent transaction with ParentPay.
- We expect to renew and extend the maturity of our revolving credit facility.
- We are continuing to dispose of non-core assets, with three processes currently under way: namely our 'blue light' emergency services software; our specialist insurance businesses in partnership with Artificial Labs; and our Axelos joint venture with the UK Government, with combined expected proceeds of at least £200m. We anticipate proceeds to come through in the second half of the year. Further non-core disposals are expected to realise around £200m, including from more off-the-shelf software assets, as well as Specialist Service businesses that will be sold once recovery from the Covid crisis is well established.

We plan to put in place longer-term debt funding solutions, likely to be later in the year and subject to market conditions.

Outlook

Despite national lockdown through Q1, we are still targeting our first year of organic revenue growth for six years.

We plan to deliver improving profitability and cash flow from trading operations, offset by reversal of VAT savings, pension commitments and significant ongoing restructuring charges.

We are targeting disposal proceeds of £700m, with £500m in 2021.

Our new simpler structure supports inflection to sustainable cash generation in 2022.

We are continuing to build a more focused, client-centric and streamlined business, in order to deliver improving returns to investor.

Measuring our performance

Financial performance indicators

Adjusted profit before tax (£m)[1*]

2020	65.2
2019	197.7

Adjusted operating margin (%)[1]

2020	3.5
2019	7.3

Adjusted earnings per share (p)[2]

2020	4.19
2019	9.30

Adjusted free cash flow[3*]

£238.6m

(2019: £(23.2)m outflow)

Return on capital employed[4]

3.8%

(2019: 7.8%)

Headline gearing: headline net debt to adjusted EBITDA[5]

3.1x

(2019: 2.7x)

Non-financial performance indicators

Our people

Our employee net promoter score (eNPS) continued its upward trend demonstrating our ability to maintain our overall employee engagement in unprecedented times.

Our suppliers and partners

We are signatories to the UK Government's Prompt Payment Code, reporting our payment practices and performance to the government every six months.

Our clients and customers

We actively seek the views of our clients through a customer net promoter score (cNPS) survey. In 2020, we received feedback from more than 1,020 individuals across 638 clients.

Employee net promoter score
Positive points swing in eNPS

+7pts

(2019: +14pts)

Adherence to fair business terms
Suppliers paid within 60 days

95%

(2019: 97%)

Customer net promoter score
Positive points swing in cNPS

+17pts

(2019: +22pts)

1. Refer to alternative performance measures on pages 204 to 206.
2. Refer to note 2.7 of the consolidated financial statements.
3. Refer to note 2.10 of the consolidated financial statements.
4. Post IFRS 16.
5. The Board's view is that the appropriate headline leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times headline net debt to adjusted EBITDA (prior to the adoption of IFRS 16). At 31 December 2020, the Group's headline gearing ratio was 2.4x (2019: 2.1x) excluding the impact of IFRS 16, as a result of the lower adjusted EBITDA due to the impact of Covid-19. The Board has not formally reviewed the target range, but taking account of the adoption of IFRS 16, the range would increase arithmetically to be between 1.7 and 2.7x headline net debt to adjusted EBITDA. At 31 December 2020, this ratio exceeded this range at 3.1x (2019: 2.7x) for the same reasons as the pre-IFRS 16 ratio.

* Measures used to determine variable remuneration, see page 93.

Focused on the balance sheet

"Our priority for 2021 is to address the short-term debt maturities through extending our committed credit facilities and issuing new long-term debt instruments, while continuing to strengthen the balance sheet."

Gordon Boyd
Chief Financial Officer (interim)

Summary of financial performance

	Financial highlights					
	Adjusted[1] results – continuing operations			Reported results – continuing operations		
	Adjusted[1] 2020	Adjusted[1] 2019	Adjusted[1] YOY change	Reported 2020	Reported 2019	Reported YOY change
Revenue	**£3,181.2m**	£3,501.0m	(9)%	**£3,324.8m**	£3,678.6m	(10)%
Operating profit/(loss)	**£111.0m**	£254.5m	(56)%	**£(32.0)m**	£0.4m	(8,100)%
Profit/(loss) before tax	**£65.2m**	£197.7m	(67)%	**£(49.4)m**	£(62.6)m	21%
Earnings/(loss) per share	**4.19p**	9.30p	(55)%	**(0.41)p**	(4.18)p	90%
Free cash flow	**£238.6m**	£(23.2)m	1,128%	**£303.8m**	£(213.0)m	243%
Net debt	**£(1,077.1)m**	£(1,353.2)m	£276.1m	**£(1,077.1)m**	£(1,353.2)m	£276.1m

Overview

The onset of the Covid-19 crisis interrupted the pace of our ongoing transformation at Capita, as well as planned disposals and refinancing plans.

A small decline in adjusted revenue[1] was expected in the first half of 2020 due to contract losses reported in 2019 and the first quarter of 2020 was broadly in line with expectations. However, the economic impact of Covid-19 resulted in lower revenue in a number of businesses through the rest of the year. The weaknesses in transactional revenue and volume-related framework contracts related to businesses such as travel and events, resourcing, face-to-face training, and the payment services software we use to collect the London congestion charge. We continued to see resilient revenue performance in the majority of our operations from long-term contracts with a stable government and blue-chip customer base, and saw contract wins with the DWP and the NHS.

Adjusted profit before tax[1] was impacted by new contract wins not yet replacing profits from lost contracts, reduced transactional revenue, mostly due to the pandemic, and scope and volume reductions. These were partially offset by cost savings from our ongoing transformation plan and cost saving actions taken to offset the financial impact of Covid-19, particularly in those businesses of a more transactional nature. There were, however, other cost increases, including inflation, additional depreciation, amortisation and running costs on completed transformation programmes, and an increased bad debt provision. The Group participated in the job retention scheme made available by the Government to help ease the impact Covid-19 otherwise would have had, including potentially additional headcount reductions. The grant income of £21.3m was recorded in the year and offset against the associated payroll costs.

Cash from trading operations was improved by contractual working capital movements more than offsetting the decline in adjusted operating profit[1]. Adjusted free cash flow[1] was underpinned by this improvement in cash from trading operations, shorter public sector payment cycles as part of the Covid-19 response, the impact of lower revenue, and better working capital management, lower capital expenditure and lower spend on certain transformation projects as the Group

1 Refer to alternative performance measures on pages 204 to 206.

focused on managing cash in the face of economic uncertainty.

As part of our drive for simplification, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses. In June 2020, we completed the disposal of Eclipse Legal Services for net cash proceeds of £50.0m, realising a gain of £43.3m, and in February 2021 we received cash proceeds from the disposal of the Education Software Solutions (ESS) business of £298.5m, of which £50.1m was payable to the Capita defined benefit pension scheme to obtain legal title to the intellectual property rights used by the ESS business. Proceeds from both of these disposals will strengthen the Group's balance sheet by reducing net debt and pension liabilities. The Board has approved a disposal programme and further disposals will be considered in due course where there are opportunities to maximise the value from exiting these non-core businesses.

Liquidity at 31 December 2020 was £708.6m, made up of £452.0m of our committed revolving credit facility and £150.0m backstop liquidity facility which expired on completion of the ESS disposal, none of which were drawn at 31 December, and £106.6m of unrestricted cash and cash equivalents net of overdrafts. The Group was in compliance with its financial covenants at 31 December 2020.

Our priority for 2021 is to address the short-term debt maturities through extending our committed credit facilities and issuing new long-term debt instruments, while continuing to strengthen the balance sheet. We had planned a bond issuance in 2020, to extend our debt maturities; however, due to market appetite, we were unable to do this.

The move to a new corporate structure in the second half of 2021, that is more focused and client-centric, will also drive further cost savings from reduced overheads.

Summary of financial performance

Adjusted results

Capita reports results on an adjusted basis to aid understanding of business performance. The Board has adopted a policy to disclose separately those items that it considers are outside the underlying operating results for the particular period under review and against which the Group's performance is assessed. In the directors' judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence for users of the financial statements to obtain a proper understanding of the financial information and the underlying in-period performance of the business. Those items which relate to the ordinary course of the Group's operating profit remain within adjusted profit.

1 Refer to alternative performance measures on pages 204 to 206.

Adjusted revenue[1] bridge by key driver

	£m
Year ended 31 December 2019	**3,501.0**
One-offs in 2019	**(39.3)**
Year ended 31 December 2019 rebased	**3,461.7**
Losses	**(212.1)**
Scope and volume	**(51.8)**
Transactional	**(1.1)**
Wins	**122.4**
One-offs in 2020	**14.7**
Year ended 31 December 2020 – pre-Covid-19	**3,333.8**
Covid-19 – scope and volume	**(112.3)**
Covid-19 – transactional	**(110.7)**
Covid-19 – wins	**70.4**
Year ended 31 December 2020	**3,181.2**

In accordance with the above policy, the trading results of business exits, along with the non-trading expenses and gain on disposals, were excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2019 comparatives have been re-presented to exclude 2020 business exits. Education Software Solutions was classified as a business exit and therefore excluded from adjusted results in both 2020 and 2019.

In 2019, International Financial Reporting Standard 16 Leases (IFRS 16) was adopted, and to aid comparison with 2018, the primary adjusted measures used by the Board for evaluating performance were presented before the impact of IFRS 16. For 2020, adjusted results are presented after the impact of IFRS 16 and 2019 has been re-presented on the same basis.

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

Adjusted revenue

Adjusted revenue[1] reduced year on year by around 9%. The adjusted revenue[1] bridge details the movements:

- One-off benefits from contract termination payments and deferred income releases.
- Contract losses, mainly the impact of local government hand backs in Government Services, such as Birmingham and Southampton councils, and a number of losses in Specialist Services.
- Contract wins which include the first year of revenue on the Ministry of Defence's fire and rescue project (DFRP) contract, a project performed in Customer Management, and a number of smaller wins across all divisions.
- As happened in 2019, a number of one-offs arose from deferred income releases associated with contract terminations and modifications (detailed further below).
- Net reduction of £152.6m (5%) attributed to Covid-19, largely due to lower transactional revenues in our businesses heavily impacted by the pandemic in travel and events, enforcement, Government Services and People Solutions, including a number of our framework agreements which are driven by volumes. This was offset by additional revenue won, predominantly within Government Services and Customer Management, to assist with the UK's response to the Covid-19 including contracts with the DWP and various NHS schemes, with some of these continuing into 2021.

Order book

The Group's consolidated order book was £5,851m at 31 December 2020 (2019: £6,720m) as additions from contract wins and extensions in 2020 (£1,573m), including TfL congestion charge and Army recruitment extension, did not offset the reduction from revenue recognised in the year (£2,365m) and contract terminations and scope changes (£77m). In January 2021 the Group signed a contract with the Royal Navy which represents a £0.9bn addition to the order book which is not reflected in the December 2020 order book.

Adjusted profit before tax[1] bridge by key driver

	£m
Year ended 31 December 2019	**197.7**
One-offs in 2019 – contract-related	**(28.2)**
Year ended 31 December 2019 rebased	**169.5**
Contract losses	**(48.0)**
Contract wins	**37.0**
Scope and volume	**(81.0)**
Other costs	**(65.7)**
Transformation cost savings	**145.2**
Transactional	**(67.9)**
One-offs in 2020 – contract-related	**(23.9)**
Year ended 31 December 2020	**65.2**

Adjusted operating profit to adjusted free cash flow[1]

	2020 £m	2019 £m
Adjusted operating profit[1]	**111.0**	254.5
Add: depreciation/amortisation and impairment property, plant and equipment and intangible assets	**182.0**	184.9
Adjusted EBITDA	**293.0**	439.4
Contractual working capital movement (deferred income, contract fulfilment assets and accrued income)	**(42.5)**	(215.7)
Cash from trading operations*	**250.5**	223.7
Net capital expenditure	**(72.4)**	(172.9)
Other/working capital	**60.5**	(74.0)
Adjusted free cash flow[1]	**238.6**	(23.2)

* Cash from trading operations defined as adjusted EBITDA less contractual working capital movements.

Adjusted profit before tax

Adjusted profit before tax[1] declined in 2020. The adjusted profit before tax[1] bridge breaks out the revenue and cost impacts on profit:

- One-off contract related items in 2019 relating to the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications.
- The benefit from contract wins (which includes the initial loss on the DFRP contract of £15m (refer to note 2.1 of the consolidated financial statements)) are not yet replacing margin from lost contracts.
- Scope and volume reductions described earlier, and other cost increases, are partly mitigated by cost savings from the transformation cost competitiveness programme (see below).
- Other cost increases, such as, inflation (including the commitment in the UK to the real living wage), additional depreciation, amortisation and running costs on completed transformation programmes, and an increase in bad debt provision.
- Reduction in transactional revenue (mostly attributable to Covid-19) which has a high initial margin impact due to fixed and semi-fixed cost base. This could not be fully mitigated by cost reduction actions, for example the impact of furloughing employees.
- Unplanned contractual one-offs, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, provisions recognised on onerous contracts and contract related asset impairments (see further below).

The cost competitiveness programme delivered £145.2m of savings in 2020 and cumulative savings since 2018 of £305m, which were used prior to 2020 to increase investment in strengthening functions and build the platforms for growth, as well as to partially offset the decline in revenue. The savings continued to be generated through simplifying the organisation, reducing management layers and rationalising the IT and property portfolios.

The adjusted revenue[1] and adjusted profit before tax[1] were impacted by a number of material unplanned contractual one-off items, netting to a charge of £23.9m. These items are not excluded from adjusted results as they are considered to be normal course of business and not associated with the transformation plan. These included:

- Net gain of £14.1m from the release of deferred income and contract fulfilment asset utilisation from a contract termination in Customer Management. Where a contract is terminated early, all deferred revenue is recognised in the year of termination, which would otherwise have been deferred over the expected life of the contract in line with the Group IFRS 15 policy. Similarly, any associated contract assets are written off in the year of termination, unless there are alternative uses on other contracts.
- Contract related provisions of £17.3m, including an onerous contract provision of £11.2m in Customer Management.
- Contract related asset impairments of £16.4m on challenging contracts in Government Services and Customer Management.

Adjusted free cash flow

Adjusted free cash flow[1] in 2020 was an inflow (£238.6m). This inflow was due to improved contractual working capital movements and inflows from other working capital more than offsetting the decline in adjusted operating profit[1].

There are also a number of items that can lead to significant differences between profit and the generation of free cash flow, including:

- Timing of profits compared to the cash received. Typically, cash receipts are aligned to costs incurred whereas, under IFRS 15, revenue is more evenly distributed in the early years on the contract. This typically results in lower profits in early years on contracts which have significant restructuring costs or higher operating costs prior to transformation. The cash received is deferred and released as we deliver against our obligations to provide services and solutions to our clients rather than matched against costs as they are incurred. We have set out in note 2.1 a graphical presentation of the profits and cash flows on a typical outsourcing contract, and have also provided explanations, to aid an understanding of how the differences arise.
- Contract terminations and modifications, which can lead to major gains or losses in the year of termination or modification, and where cash inflows/outflows have occurred in prior years.

1 Refer to alternative performance measures on pages 204 to 206.

Revolving credit facility

£452.0m

at 31 December 2020

Reported cash flow

£308.8m

(2019: £(213.0m outflow)

"The cost competitiveness programme delivered £145m of savings in 2020 and cumulative savings since 2018 of £305m."

We have analysed working capital between 'contractual' – being those balances which relate to contract movements of deferred income, accrued income and contract fulfilment assets to derive cash from trading operations – and 'other/working capital', which represents routine normal working capital items such as trade receivables, trade payables and prepayments, and interest and tax. Cash from trading operations is a more helpful way to think about these movements rather than describing them as working capital outflows and provides a more stable and consistent view of operating cash flows.

Cash from trading operations improved to £250.5m (2019: £223.7m) due to a reduction in contractual working capital outflows, as previously expected.

Contractual working capital improved with an outflow of £42.5m (2019: outflow £215.7m). This movement arises from:

- An increased accrued income inflow of £27m, driven by invoice phasing in Technology Solutions and the impact of lower volumes across People Solutions and Software.
- A reduced deferred income outflow of £154m, largely from advanced receipts and higher activity levels on the DFRP contract where cash has been received in 2020 in respect of transformation and invoice timing on a contract with a telecom customer, compared to an outflow in 2019 which included the £78m one-off impact of ending local government contracts, offset by:
- An increased contract fulfilment asset outflow of £8m, mostly from an increase in additions on Government Services contracts, the most significant being on the DFRP contract, offset by contract asset write-offs in Customer Management and Government Services.

Adjusted[1] to reported profit bridge

	Operating (loss)/profit		(Loss)/profit before tax	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Adjusted[1]	**111.0**	254.5	**65.2**	197.7
Amortisation and impairment of acquired intangibles	**(33.9)**	(49.9)	**(33.9)**	(49.9)
Impairment of goodwill	**—**	(41.4)	**—**	(41.4)
Business exit – trading	**51.0**	46.6	**51.0**	46.6
Business exit – non-trading expenses	**(41.9)**	(52.1)	**(41.9)**	(52.1)
Business exit – gain on business disposals	**—**	—	**31.4**	—
Business exit – on hold disposal costs	**(7.5)**	—	**(7.5)**	—
Significant restructuring	**(109.6)**	(159.4)	**(109.6)**	(159.4)
Other	**(1.1)**	2.1	**(4.1)**	(4.1)
Reported	**(32.0)**	0.4	(49.4)	(62.6)

Other working capital related cash inflows reflected shorter public sector payment cycles as part of the Covid-19 response, the impact of lower revenue, and actions taken to improve working capital.

Net capital expenditure decreased in 2020 in line with previously planned reductions as we drove focused investment and Group cash preservation methods in response to the pandemic. This included reduced spend on finance transformation and functional IT programmes, such as Workday, Salesforce and SAP.

Reported results

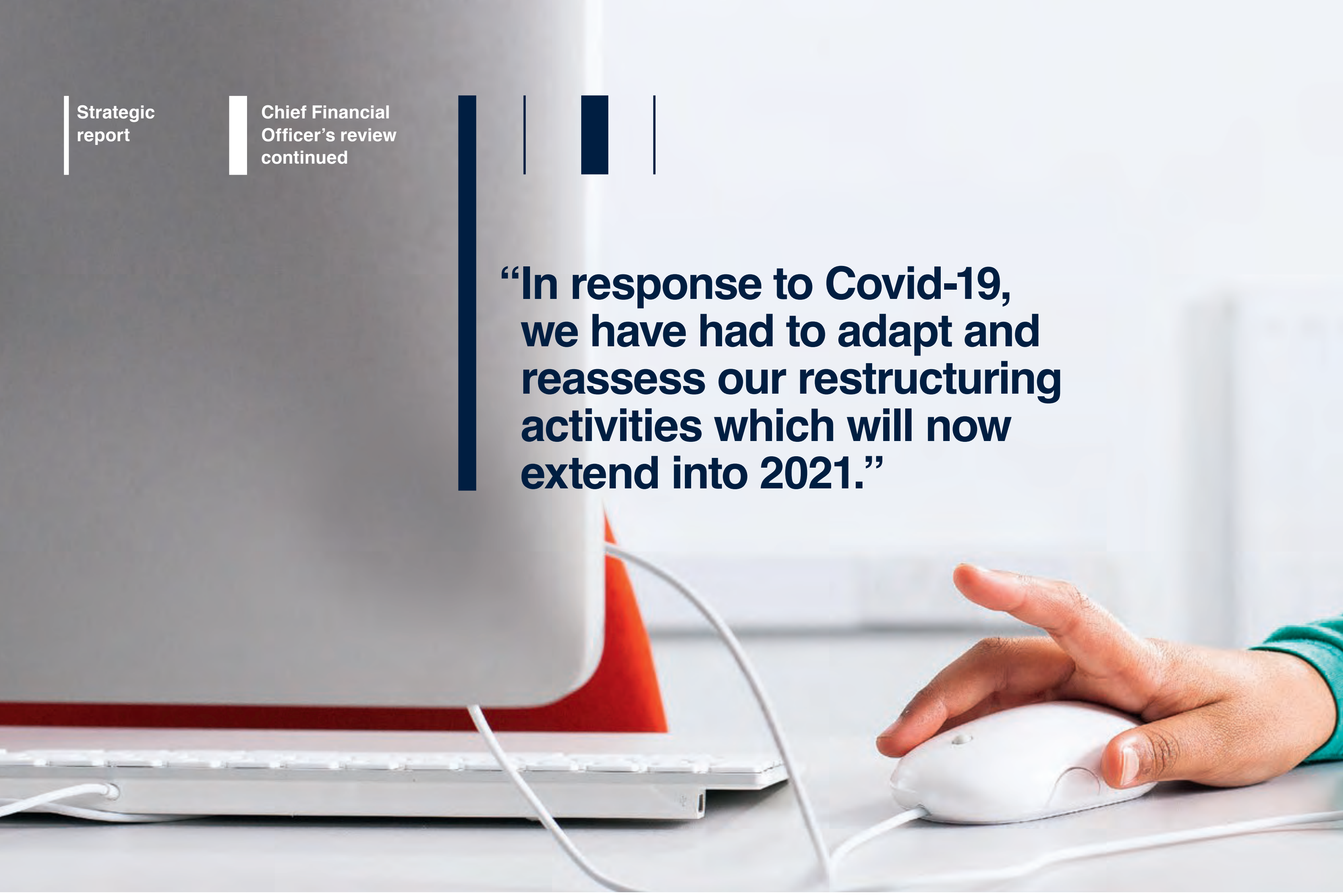
The Board presents adjusted key measures of profit and cash, in addition to reported measures, where items are significant in size and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the underlying financial performance of the Group. Given the wide-ranging scope of the transformation plan, including for 2020 property portfolio management, the Board has again sought to provide a clear understanding of the underlying and continuing performance of the businesses. This has been achieved by separating and disclosing separately significant adjusted items as set out in the following table. The Board will continue to keep under review the presentation of alternative measures.

Adjusted operating profit[1] and adjusted profit before tax[1] exclude a number of specific items, including significant restructuring costs of £109.6m, the amortisation and impairment of acquired intangibles, including goodwill, of £33.9m, and business exits of £9.1m, to aid understanding of business performance.

Business exits are businesses that have been disposed of or exited during the year, or are in the process of being disposed of or exited. At 31 December 2020 these comprised:

- The Eclipse business whose disposal completed on 30 June 2020.
- The Capita Workplace Technology business whose disposal completed on 1 August 2020.
- The Employee Benefits business whose disposal was completed on 30 November 2020.

1 Refer to alternative performance measures on pages 204 to 206.



> **"In response to Covid-19, we have had to adapt and reassess our restructuring activities which will now extend into 2021."**

Adjusted to reported free cash flow

	2020 £m	2019 £m
Adjusted[1]	**238.6**	(23.2)
Pension deficit contributions	**(29.5)**	(71.1)
Significant restructuring	**(64.1)**	(148.5)
Business exits	**33.9**	32.5
Business exits – on hold disposal costs	**(7.5)**	—
Non-recourse trade receivables financing	**13.6**	—
VAT deferral	**118.8**	—
Other	**—**	(2.7)
Reported	**303.8**	(213.0)

- Two businesses, including the Education Software Solutions business, which were in the process of being exited and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date. The sale of both businesses completed subsequently, and
- The exit costs relating to further planned disposals, including professional fees and separation planning costs.

In accordance with our policy, the trading results of these businesses, along with the non-trading expenses and gain or loss on disposal, were included in business exits and therefore excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2019 comparatives have been re-presented to exclude 2020 business exits.

During the period, the Group was in the active process of disposing of a number of businesses. However, due to the impact that the Covid-19 pandemic had on the underlying trading of these businesses, the disposal process was put on hold. The costs incurred in respect of these disposals are excluded from the Group's adjusted results but disclosed separately to the continuing business exits given their materiality. These costs included professional fees in respect of legal and financial due diligence, and separation planning costs.

Further disposals are planned as part of the Group's simplification strategy. As these disposals did not meet the definition of business exits or assets held-for-sale at 31 December 2020, their trading results were included within adjusted results.

In 2018, the Board launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan has extended to property rationalisation, procurement centralisation, transformation of support functions, including investment in growth, and transformation of finance, and operational excellence, including investment in automation. These activities are designed to improve the cost competitiveness of the Group, secure Capita's position in the markets it serves, and strengthen governance and control. In response to the varied impacts of Covid-19 we have had to adapt and reassess our restructuring activities which will now extend into 2021.

The costs of the transformation plan, including redundancy costs, are excluded from adjusted operating profit[1] as significant restructuring. We will keep this presentation under review to ensure it remains appropriate.

Further detail of the specific items charged in arriving at reported operating profit for 2020 is provided in note 2.4 to the consolidated financial statements.

Reported free cash flow was an inflow in 2020 reflecting the inflow from adjusted free cash flow explained above, the benefit from the Government VAT deferral measures, the utilisation of a non-recourse trade receivables financing facility, and cash from the trading of business exits and net proceeds on the disposal of businesses in the period. These

1 Refer to alternative performance measures on pages 204 to 206.

Net debt

	2020 £m	2019 £m
Opening net debt	**(1,353.2)**	(466.1)
Adoption of IFRS 16	—	(643.9)
Opening net debt post adoption of IFRS 16	**(1,353.2)**	(1,110.0)
Cash movement in net debt	344.1	(241.2)
Non-cash movements	(68.0)	(2.0)
Closing net debt	**(1,077.1)**	(1,353.2)
Remove closing IFRS 16 impact	508.1	562.6
Headline net debt (pre-IFRS 16)	**(569.0)**	(790.6)
Cash and cash equivalents net of overdrafts	141.1	122.8
Debt net of swaps	(710.1)	(913.4)
Headline net debt (pre-IFRS 16)/adjusted EBITDA[1]	**2.4x**	2.1x
Headline net debt (post-IFRS 16)/adjusted EBITDA[1]	**3.1x**	2.7x

Liquidity

	2020 £m	2019 £m
RCF	**452.0**	414.0
Backstop liquidity facilities	**150.0**	—
Less: drawing on facilities	**—**	—
Undrawn committed facilities	**602.0**	414.0
Net cash, cash equivalents net of overdrafts	**141.1**	122.8
Less: restricted cash[1]	**(34.5)**	(42.1)
Liquidity	**708.6**	494.7

were offset by spend on known commitments, including pension deficit contributions (which the directors consider to be debt-like in nature), and restructuring costs.

A non-recourse trade receivables financing facility was put in place to mitigate the risk of customer receipts slippage due to the Covid-19 pandemic. This facility and the VAT deferral were both excluded from adjusted free cash flow[1].

Impact on net debt

Net debt at 31 December 2020 was £1,077.1m (2019: £1,353.2m) reflecting the cash inflow in the year. The reduction in net debt was largely from the improved adjusted free cash flow[1], the deferral of VAT, and proceeds from the Eclipse disposal.

The Board's view is that the appropriate headline leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times headline net debt to adjusted EBITDA[1] (prior to the adoption of IFRS 16). At 31 December 2020, the ratio exceeded the top of our range at 2.4 times (2019: 2.1 times) as a result of the lower adjusted EBITDA, which as explained above, was due to the impact of Covid-19.

The Board has not formally reviewed the target range, but taking account of the adoption of IFRS 16, the range would increase arithmetically to be between 1.7 and 2.7 times headline net debt to adjusted EBITDA[1]. At 31 December 2020, this ratio exceeded this range at 3.1 times (31 December 2019: 2.7 times) for the same reasons set out above.

We will keep our leverage target under review as the economic circumstances develop and our balance sheet strengthens following asset disposals.

We were compliant with all debt covenants at 31 December 2020.

The impact of IFRS 16 adoption on the Group's adjusted net debt to adjusted EBITDA[1] debt covenant ratio is neutral, as the Group covenants are calculated based on frozen GAAP, with the exception of the US private placement loan notes. The US private placement loan notes covenant test includes the income statement impact of IFRS 16 but not the balance sheet impact, and therefore adoption of IFRS 16 is favourable on this covenant measure. At 31 December 2020, the US private placement loan notes ratio was 1.8 times.

Interest cover[1] covenant was 8.5 times for the US private placement loan notes (2019: 11.2 times) and 7.8 times for other financing arrangements (2019: 10.8 times).

Capital and financial risk management
Liquidity remains a key area of focus for the Group. Financial instruments used to fund operations, including the transformation plan, and to manage liquidity comprise US private placement loan notes, euro fixed-rate bearer notes, a Schuldschein loan, a revolving credit facility (RCF), backstop liquidity facilities, leases and overdrafts.

We have been very focused on conserving cash and maximising liquidity and this has resulted in an improved liquidity since the end of 2019.

The Group's RCF of £452.0m at 31 December 2020 (31 December 2019: £414.0m) provides flexible liquidity available to fund operations and a reasonable liquidity buffer allowing for contingencies. The facility is available until 31 August 2022, extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. At 31 December 2020 the committed RCF was undrawn (31 December 2019: undrawn).

Additionally, the Group secured a committed backstop liquidity facility of £150.0m in February 2020. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second backstop liquidity facility, bringing the combined value of the two facilities back to £150.0m. Neither facility was drawn at 31 December 2020. Both backstop liquidity facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

1 Refer to alternative performance measures on pages 204 to 206.

"The Group has a strong track record of executing major planned disposals and a successful history of securing effective refinancing."

As part of the Group's mitigation of the impact of Covid-19, in June 2020 a non-recourse invoice discounting facility was executed. The value of invoices sold under the facility at 31 December 2020 was £13.6m. The Group's intention is that the facility will be used only while Covid-19 continues to impact the business.

At 31 December 2020, the Group had £141.1m of cash and cash equivalents net of overdrafts, and £765.1m of private placement loan notes, fixed-rate bearer notes, and Schuldschein loan. These debt instruments mature over the period to 2027, with repayments of £209.9m and £230.2m, in 2021 and 2022 respectively.

The Group intends to extend the average term to maturity of its debt, and thereby reduce refinancing risk, by issuing new long-term debt instruments in 2021, market conditions permitting.

As noted previously, as part of our simplification drive, we also decided to dispose of a number of non-core businesses in 2020. The anticipated disposal proceeds will provide options to reduce the Group's debt. We will continue to pursue these in 2021.

Going concern and viability assessments
The Board closely monitors 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.

Year end liquidity

£708.6m

(2019: £494.7m)

Headline leverage post IFRS 16

3.1x

(2019: 2.7x)

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 a refinancing during 2021, which it expects will include an RCF with a maturity at least a year later.

Any refinancing and future disposals, should the severe but plausible downside crystallise, 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. Consequently, these financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

The Board's assessment is set out in more detail in Section 1 of the consolidated financial statements and summarised in the viability statement on page 58.

Pensions

As a result of the last triennial valuation at 31 March 2017, deficit-repair contributions totalling £176.0m, were agreed and these will be fully paid in the first half of 2021. It was expected that the combination of the deficit contributions and the scheme's investment strategy would largely eliminate the deficit identified in 2017. Looking to the valuation at March 2020, the Trustees will need to take into account the impact of Covid-19 and the planned delivery of the transformation of the Group. The impact being that we expect a further deficit will be identified as a result of more prudent assumptions. The Company and Trustees will continue their commitment to an open dialogue between them, ensuring the financial health of the scheme is maintained in a proportionate way with all other stakeholders. We expect to conclude the triennial valuation in the first half of 2021, including agreement with the Trustees with regards to repairing the deficit in the next three to six years.

1 Refer to alternative performance measures on pages 204 to 206.

> "As part of our drive for simplification, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses."

Balance sheet
The consolidated net liabilities were £81.1m at 31 December 2020 (2019: £64.0m). The increase in net liabilities is predominantly driven by the actuarial loss on the Group's defined benefit pension schemes.

Finance transformation
In 2018, the Board launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan includes transformation of finance to improve the Group's financial reporting systems, processes and controls, by increasing standardisation, automation and the quality of available data.

The new financial systems were due to go live in the second half of 2019. While progress was made, we took the decision to defer the go-live as more work was required on the core processes and procedures before the system would be effectively implemented. As such, we impaired £12.3m at 31 December 2019, representing areas that we expected to redesign before going live. Several interim activities were progressed during 2020 and the technical asset including the IT infrastructure, software and codebase have been preserved and remain ready to deploy. No impairment has been recorded in 2020 as we believe the solution remains fit for purpose. The carrying value of the investment remains unchanged at 31 December 2020 at £58.6m. The carrying value of the asset will be kept under review through the next phase of the Group's transformation to assess for any triggers for impairment should there be a material change to the Group's operating model.

The Group has continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

Contingent liabilities
In September 2020, the Group settled a liability relating to past services received under supplier software licence agreements. The settlement requires a cash payment of £5m (payable in USD) in January 2021, and with a commitment to future purchases of £79m of which £6m (payable in USD) is over the period to 31 December 2021 and £73m (payable in USD), is over the period to 30 June 2024.

In June 2020 the Group made a provision for the cash settlement at 31 December 2020 and excluded this from adjusted results. The future purchases will be at the usual discounted prices available to the Group, and the Group has forecasts that support the requirement for such products and services. These products are important in supporting the delivery of future performance obligations and digital solutions for our customers. Accordingly, there is no provision to record as the committed future purchases will benefit the Group and do not represent an economic outflow of resources. As the future purchases are made, the cost if expensed will be recorded in adjusted results.

Refer to note 2.4 of the consolidated financial statements for the 'adjusted operating profit and adjusted profit before tax' disclosure note and note 6.2 for the 'commitments' disclosure note.

Forward planning assumptions

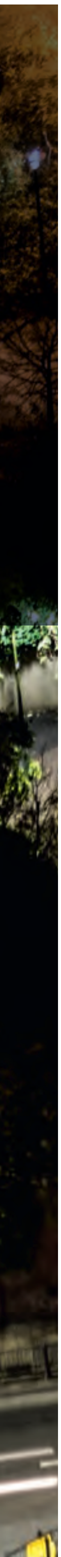
The uncertainties created by the current and potential future impact of Covid-19 on our business means that forecasting is inherently uncertain and so guidance is not provided. However, our current planning assumptions are:

- **Revenue:** despite lockdown in the first quarter of 2021, targeting organic revenue growth.
- **Adjusted profit before tax and cash from trading operations:** underpinned by net cost savings (further £50m savings in 2022 from future Capita).
- **Restructuring:** continuation of restructuring programme, broadly in line with 2020.
- **Pensions:** triennial valuation agreement targeted for the first half of 2021, deficit reduction programme expected over the next three – six years.
- **Net debt:** broadly flat year on year – before disposals.

1 Refer to alternative performance measures on pages 204 to 206.

Software

Software provides application software and other solutions to clients in the local government, emergency services, healthcare, utilities and energy, professional and financial services, and payments sectors.



Adjusted revenue

£246.0m

(2019: £252.1m) -2.4%

Adjusted operating profit

£43.4m

(2019: £50.7m) -14.4%

Following a strategic review of our Software division, we decided to focus on a portfolio of core software capabilities which are better aligned with and support our consulting, transformation and digital business process outsourcing (BPO) services, and the vertical markets of the rest of the Group. We will retain our software assets that are catalysts for growing our other services and plan to dispose of the standalone software products that have little overlap or cross-sell with the rest of Capita.

Our markets and growth drivers

Our existing markets remain the focus. While the payments market is expected to grow by double digits through to 2025, and our payments business is a successful challenger in this high-growth market, the remaining markets are expecting low to mid-single-digit growth in the next five years.

We are focusing on cross-selling opportunities in existing and adjacent markets, and strategic expansion into new markets.

At a macro level, market growth continues to be driven by software's deepening role in every aspect of business and consumer life, which has been further accelerated by the Covid-19 pandemic. The growth of cloud solutions and software as a service (SaaS) continued during 2020 and our investment reflected this shift, as we continued to replatform our core products ahead of segment demand.

Our strategy

Software capability remains critical to Capita. Our vertical market domain expertise and industry class software development capability, ensure we are the differentiating catalyst for Capita's digitally enabled BPO services.

While we will continue to sell direct to market, we will increasingly create microservices and other digital componentry as a powerful enabler of our BPO services. We will also seek opportunities to embed our software and microservices in other third-party software.

We see increasing benefits from our global digital development centre (DDC) in India and the UK, which is now considered a top capability, as evidenced by the Capability Maturity Model Integration Institute's award of a 'maturity level 5' for development and support – an accreditation shared by IBM, Accenture and Deloitte.

We intend to leverage the DDC for the benefit of all of Capita and work is underway to transition to a pan-Capita DDC model, which is expected to drive Group cost savings in addition to the highest standards of software development.

Financial performance

Adjusted revenue in 2020 fell by 2.4% to £246.0m, with go-lives in Secure Solutions and Services, US growth and increased volumes in AMT Sybex, offsetting contracts ending. Covid-19 adversely impacted the volume-driven payments business and delayed pipeline delivery.

Adjusted operating profit decreased by 14.4% to £43.4m, due to an increase in depreciation and amortisation, and increased costs of the DDC. The Covid-related transactional decline also adversely impacted profit.

Adjusted cash from trading operations improved by 21.7% to £58.8m with the reduction in profit more than offset by improvements in contractual working capital, driven by advance billing and lower contract fulfilment asset (CFA) additions in Secure Solutions and Services and AMT Sybex.

Cost and operational excellence

Swift action was taken to protect the business from the impact of Covid-19 and we sustained delivery on 96% of our service-level agreements. Our rapid response strengthened client relationships, with very positive feedback from local government and ambulance services and an increase in our cNPS of 26 points.

Our cost-saving initiatives helped to mitigate amortisation and inflationary cost increases; key programmes included organisational restructure, technology and procurement.

Our investment in standard software tools, developing best practice processes and shortened development cycles allowed us, for example, to develop and embed healthcare decision software within Microsoft's 'Azure Health Bot', allowing healthcare organisations around the world to build and deploy large-scale AI-powered, compliant, conversational healthcare experiences. This is an example of how, by embedding software in third party software, we can distribute at scale and low marginal cost, and we expect to see benefits beginning in 2021.

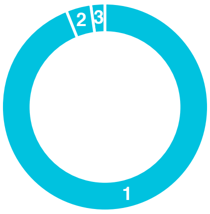
Investing in growth

In 2020, we invested £15m in new product development, and reduced development cycles, and increasingly focused on microservices and digital componentry as a catalyst for pan-Capita digital services.

We also used products in new markets; for example, ResponsEye has been assisting social housing organisations with the maintenance of properties.

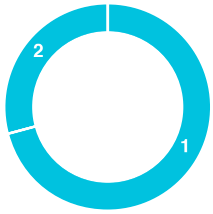
At 31 December 2020, the total unweighted pipeline was £1,037m, an increase of £252m from February 2020 (post divisional restructure), with £389m of total contract value (TCV) won. The order book at the year end was £510.9m, a decrease of £67.5m, from 31 December 2019. Our renewals rate across all opportunities was 88%, and 98% on those that we bid for.

Adjusted[1] revenue by type (%)



1 **94%** Long-term contractual
2 **4%** Short-term contractual
3 **2%** Transactional

Revenue by market (%)

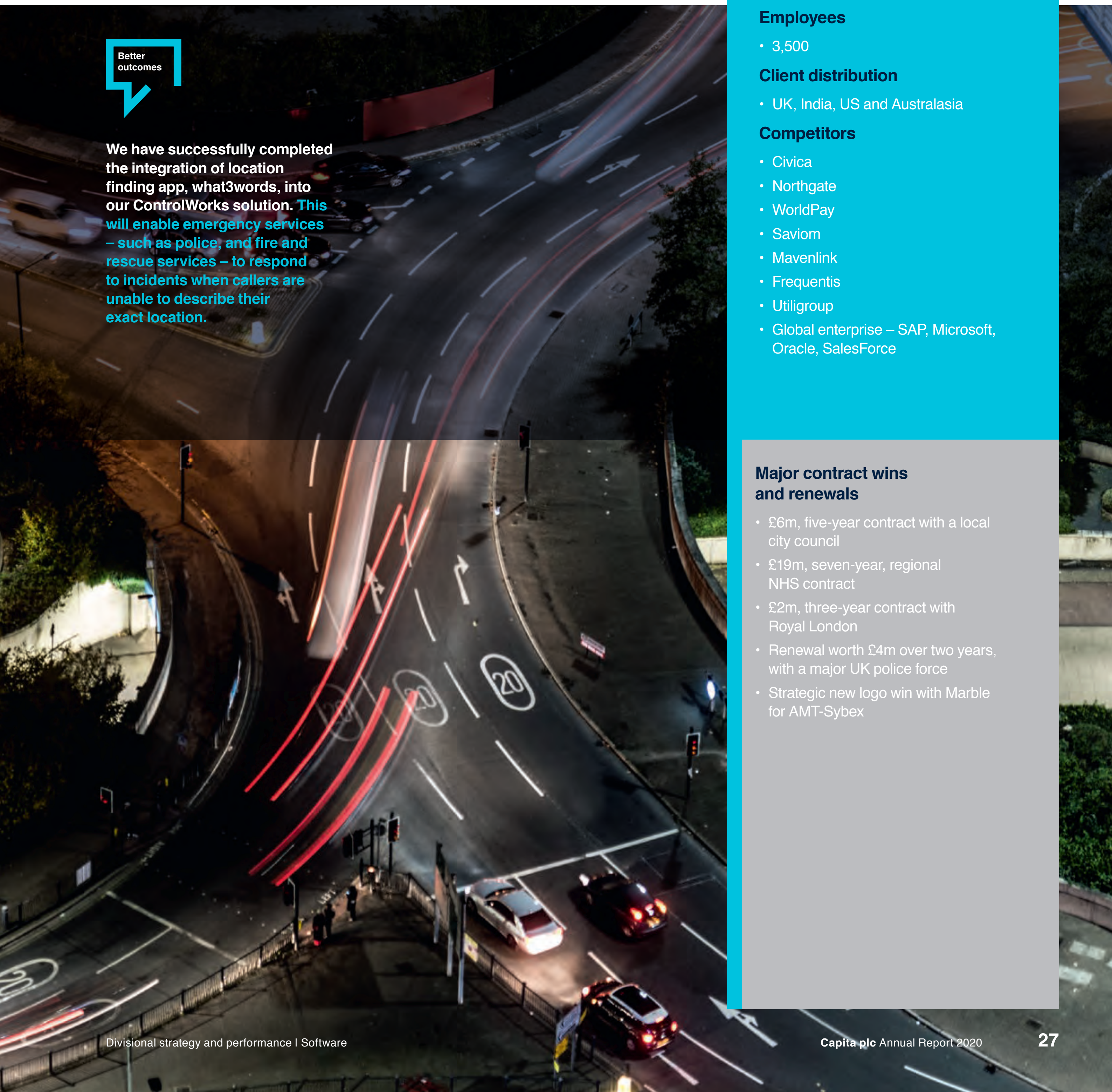


1 **71%** Public sector
2 **29%** Private sector

Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	**246.0**	252.1	(2.4)
Adjusted operating profit (£m)	**43.4**	50.7	(14.4)
Adjusted operating margin (%)	**17.6**	20.1	
Adjusted cash from trading operations (£m)	**58.8**	48.3	21.7
Order book[2] (£m)	**510.9**	578.4	(11.7)

1. Refer to alternative performance measures on pages 204 to 206.
2 Includes £92m for ESS, derecognised upon disposal completion in 2021.



Better outcomes

We have successfully completed the integration of location finding app, what3words, into our ControlWorks solution. This will enable emergency services – such as police, and fire and rescue services – to respond to incidents when callers are unable to describe their exact location.

Business units

- Local Government
- Healthcare
- Payments
- Resource Management
- Emergency Services
- Utilities, transport and assets

Employees

- 3,500

Client distribution

- UK, India, US and Australasia

Competitors

- Civica
- Northgate
- WorldPay
- Saviom
- Mavenlink
- Frequentis
- Utiligroup
- Global enterprise – SAP, Microsoft, Oracle, SalesForce

Major contract wins and renewals

- £6m, five-year contract with a local city council
- £19m, seven-year, regional NHS contract
- £2m, three-year contract with Royal London
- Renewal worth £4m over two years, with a major UK police force
- Strategic new logo win with Marble for AMT-Sybex

People Solutions

People Solutions provides expert human resources advisory and digitally enabled services to large public and private sector organisations. Areas of expertise include learning, resourcing, pensions and HR outsourcing services business.

Adjusted revenue

£472.0m

(2019: £535.0m) -11.8%

Adjusted operating profit

£52.5m

(2019: £68.9m) -23.8%

We aim to refocus on the parts of these markets that are attractive and where we have an ability to win. During 2020, we sold the sub-scale employee benefits business, which provided flexible benefits and brokerage services, in order to focus our investments on our pensions business, where we have a leading UK market position.

Our markets and growth drivers

People are at the centre of our clients' stated business strategies, creating significant growth opportunities for our business. According to NelsonHall, the HR outsourcing market in the UK is estimated to be worth £7bn and is expected to grow at approximately 3% a year through to 2024.

The key market growth drivers are: (i) our clients' needs for financial sustainability for both themselves and their employees; (ii) a better employee experience; and (iii) the need to have access to skills, whether they are bought, borrowed or built internally, enabling them to be fit for a digital future. Legislation such as IR35 or judgments, such as McCloud and guaranteed minimum pension equalisation, offer continuous opportunities.

Our strategy

The core guiding principle of our divisional transformation journey is client centricity. We aim to retain and grow our existing clients through strong account management discipline. This involves working in partnership with our clients, understanding their issues and needs, increasing service levels, and providing digital solutions alongside data and insights.

Financial performance

Adjusted revenue decreased in 2020 by 11.8% to £472.0m, due to contract losses in learning services; the transition of historic pension contract losses and volumes on frameworks in learning. Covid-19 significantly adversely impacted learning and resourcing volumes.

Adjusted operating profit declined by 23.8% to £52.5m, as revenue decreases and increased investment in the pensions business adversely impacted profit. Cost containment became the focus due to the higher fixed-cost base of learning and resourcing, with Covid-related declines partially offset by savings.

Adjusted cash from trading operations fell by 8.8% to £64.0m, reflecting the decline in profit, which was partially offset by improvements in contractual working capital as a result of CFA balance unwinds and advanced receipts on some contracts.

Cost and operational excellence

We delivered a fast and effective response to Covid-19. The division performs critical processes for clients, including payroll and pension payments as well as recruitment and assessment for the British Army (RPP). We maintained continuity of these critical services by moving 91% of our colleagues to home working and assigning key worker status to others.

In order to serve our clients better, operational excellence and digital transformation are critical. During 2020, despite Covid, we invested in operational excellence tools and processes across our portfolio. This helped us manage a remote workforce, while maintaining a resilient service for our clients. Progressing along an ambitious digital roadmap remains a priority, particularly in our pensions administration business.

We are improving our core products and platforms while working towards standard management information tools across all businesses. We are also strengthening our analytics capability and technological partnerships with key enterprise resource planning providers.

The successful transformation of the RPP contract resulted in a two-year contract extension worth £140m, starting in March 2022.

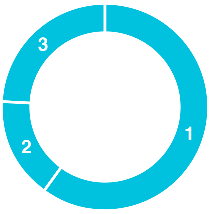
Investing in growth

We reorganised our business to align more closely with our clients so that we not only execute on their contracts but also solve their ever-changing challenges.

We invested in the development of our products, mainly the completion of product development for: Security Watchdog and Onboarding; a digital platform for learning; and a CRM system to improve employee experience in HR Solutions. We are also investing in digital remote training capabilities as a result of Covid, and we continued investment in the pensions member experience and the development of Axelos products.

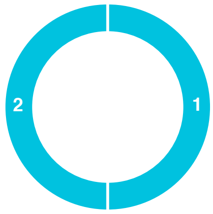
At 31 December 2020, the total unweighted pipeline was £2,039m, an increase of £659m since February 2020, with £736m of TCV won. The order book at the year end was £534.4m, an increase of £37.2m since 31 December 2019. In 2020, client value retention and client renewals increased to 78% and 84% respectively. Our renewals rate across all opportunities was 80%, and 81% on those that we bid for.

Adjusted[1] revenue by type (%)



1 **60%** Long-term contractual
2 **16%** Short-term contractual
3 **24%** Transactional

Revenue by market (%)



1 **50%** Public sector
2 **50%** Private sector

Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	**472.0**	535.0	(11.8)
Adjusted operating profit (£m)	**52.5**	68.9	(23.8)
Adjusted operating margin (%)	**11.1**	12.9	
Adjusted cash from trading operations (£m)	**64.0**	70.2	(8.8)
Order book (£m)	**534.4**	497.2	7.5

1. Refer to alternative performance measures on pages 204 to 206.

Business units

- Pensions
- Resourcing
- HR Solutions
- Learning
- Recruiting Partnering Project

Employees

- 4,900

Client distribution

- UK, US and Europe

Competitors

- Alexander Mann Solutions
- AON
- Equiniti
- GP Strategies
- Mercer
- Paychex
- Randstad
- Willis Towers Watson

Better outcomes

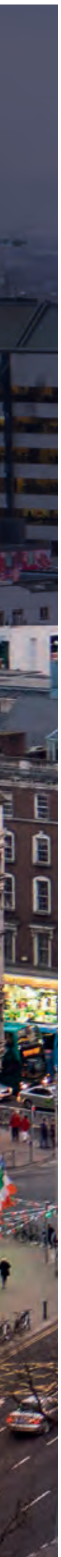
We signed a contract extension with a major high street bank worth £35m over 18 months. This contract delivers an end-to-end managed learning service which includes supporting our client in learning advisory and consulting, procurement services, data analytics, design and delivery services.

Major contract wins and renewals

- Covid-related wins of £3m
- Renewal worth around £8m over two years with a major financial services organisation
- Extensions to learning contracts in the health and defence sector worth over £29m under a Crown Commercial Services Framework
- Renewal worth £35m over 18 months with a major high street bank
- Expansion and renewal worth £60m over four years with the Teachers' Pension Scheme
- Renewal worth £24m over seven years for a pensions scheme
- Renewal worth £11m over 10 years in the utilities sector
- RPP extension worth £140m over two years

Customer Management

Capita is a leading provider of multi-channel customer engagement services, serving clients in financial services, retail and consumer goods, energy and utilities, telecommunications and media, and government and transport sectors from a mix of locations in Europe, India and South Africa. The division also provides remediation, complaints management and collections services, and serves both regulated and non-regulated customer needs.



Adjusted revenue

£1,139.7m

(2019: £1,150.6m) -0.9%

Adjusted operating profit

£105.9m

(2019: £119.8m) -11.6%

Our approach is to build partnerships based on shared outcomes and value, while continuing to deliver transactional supply where this helps our clients to meet customer demands. The value we bring to our clients is increasingly built around transforming the customer experience through the application of digital services underpinned by data insight and analytics.

Our markets and growth drivers

According to NelsonHall, the UK market is estimated to be worth £4bn a year and is expected to grow at approximately 3% a year through to 2024. We are expecting several key segments to grow above this rate, with financial services, telecommunications and retail expected to grow at 4%, 4% and 6% respectively.

We are the largest provider of customer management services in the UK and Ireland.

Customer experience and digitisation are at the forefront of our clients' strategies, with the Covid-19 pandemic further accelerating these. We expect the biggest impacts in markets such as, telecommunications, online retail and digital entertainment, and increasingly see these setting the standard for both consumer and business-to-business expectations.

Our strategy

We have a differentiated strategy and core-value proposition in our markets; our approach is customer experience-led, tech-enabled and underpinned by contracted commitment to business outcomes. We are building capability to 'make great customer experience happen'. Our commercial model increasingly includes a commitment to client outcomes, such as improvements in the net promoter score, revenue generation, customer acquisition and cost-to-serve.

Financial performance

Adjusted revenue decreased in 2020 by 0.9% to £1,139.7m. Prior year one-offs and contract losses, as well as reduced volumes on telecommunications clients, were broadly offset by contract wins. While Covid adversely impacted scope and volume on contracts with challenged end-markets, we secured a number of Covid-related projects and the majority of revenue was resilient.

Adjusted operating profit fell by (11.6)% to £105.9m, due to the change in revenue mix. Salary inflation, including the impact of the adoption of the real living wage in the UK, and the impairment of contract assets on our mobilcom-debitel contract, adversely impacted profit. The reversal of 2019 one offs also led to the reduction in profit. This was partly offset by Covid-related savings and the ongoing cost-efficiency programme.

Adjusted cash from trading operations improved by 77.6% to £73.0m, with the decline in profit being partially offset by contractual working capital improvements, driven by a reduction in net accrued and deferred income outflows, predominantly due to agreed changes to the timing of invoicing on a telecoms contract and impact of asset impairments on CFA inflows.

Cost and operational excellence

Operational delivery was challenging for both clients and providers, due to the significant change in operating model working practices and the effect of local lockdowns on the global economy throughout 2020. We maintained a high service level to clients throughout, remaining agile and focused on adjusting to the local requirements through our pandemic planning approach. We accelerated investment in computer equipment, customer experience and digital platforms, such as collaboration tools, chatbots and cloud technologies, which allowed more than 75% of the division to work from home at any one time, including 95% of our employees in India.

We maintained a number of critical services, operating with key workers for banks, telecommunications companies and utilities in a Covid-safe environment throughout 2020. In addition, we set up new services for retailers, governments and charities, including setting up a 1,000+ seat virtual contact centre in 10 days.

Improvements in the sales process, and adoption of the project management tool Evolve, allowed us to mobilise both large and targeted pieces of work, such as in our Covid-related Department for Work and Pensions (DWP) and NHS support work, in short timescales, and we have had no significant issues on recent wins.

We delivered cost improvements in 2020, particularly from efficiency gains and operating model initiatives, technology updates and procurement.

The transformation phase of our mobilcom–debitel contract is now complete, and therefore reached the inflection point during the year. There are still a number of opportunities yet to be delivered which remain key to the future lifetime profitability.

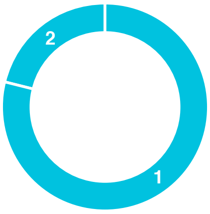
Our closed-book life insurance administration business is in structural decline, as books run off. Some customers, such as the recent partial Phoenix exit, are switching to suppliers who can provide a single digital platform for all their life books, and we are working with them to ensure a smooth transition. We continue to focus on our regulated businesses and growth areas in insurance, finance, pensions and mortgages.

Investing in growth

We continue to upgrade our infrastructure and tools, including in our analytics capability which increasingly allows real-time monitoring of our business and provides insights to our clients on their customers' behaviours and preferences.

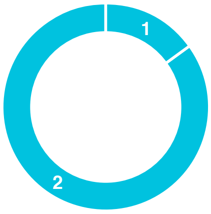
At 31 December 2020, the total unweighted pipeline was £4,206m, a decrease of £1,511m since February 2020, with £586m of TCV won. The decrease was driven by pipeline opportunity refinement and, when a consistent definition is applied throughout the period, the pipeline has increased. The order book at the year end was £2,134.7m, a decrease of £625.8m since 31 December 2019. Our renewals rate across all opportunities was 82%, and 83% on those that we bid for.

Adjusted[1] revenue by type (%)



1 **79%** Long-term contractual
2 **21%** Short-term contractual

Revenue by market (%)



1 **15%** Public sector
2 **85%** Private sector

Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	**1,139.7**	1,150.6	(0.9)
Adjusted operating profit (£m)	**105.9**	119.8	(11.6)
Adjusted operating margin (%)	**9.3**	10.4	
Adjusted cash from trading operations (£m)	**73.0**	41.1	77.6
Order book (£m)	**2,134.7**	2,760.5	(22.7)

1. Refer to alternative performance measures on pages 204 to 206.

Better outcomes

We signed a contract with Irish Water, worth €10m a year, over five years, to deliver the transformation and operation of its customer contact centre services. Under the contract, we will transform customer management support services for Irish Water's customers with a range of new software and digital capabilities.

Business units

- Regulated Services
- Customer Management UK
- Customer Services Ireland (CCS)
- Europe
- Global delivery centres

Employees

- 31,300

Client distribution

- UK, Ireland, Germany and Switzerland

Competitors

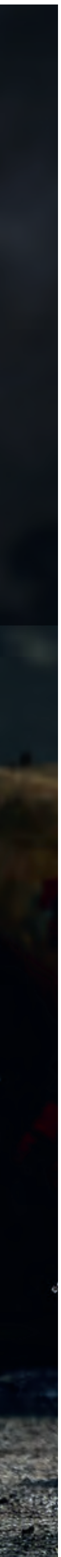
- Atento
- Teleperformance
- Webhelp
- Accenture
- Convergys
- TTech
- Sykes
- First Source
- In-sourcing trend

Major contract wins and renewals

- Covid-related wins of £37m
- £33m over three years with a UK retail bank
- €50m over five years with Irish Water with an option to extend for two years worth €17m
- Renewal worth £114m over two years with a major European telecoms provider
- Expansion of an existing contract worth £24m over one year

Government Services

Capita is the UK Government's largest partner in the application of digital transformation to improve the productivity of government operations and the citizen experience of public services. We do this in a socially responsible way to make public services better for citizens and government employees, and to help our clients to release resources so that they can be deployed back into frontline service priorities.



Adjusted revenue

£723.8m

(2019: £793.4m) -8.8%

Adjusted operating profit

£17.1m

(2019: £51.8m) -67.0%

We believe that quality public services, innovatively designed and powered by technology, are critical to delivering safer, greener and healthier communities that support everyone, including society's most vulnerable.

Our markets and growth drivers

According to NelsonHall, the UK Government market is expected to grow at approximately 3% a year to 2024. We expect a significant increase in central government spending over the next few years, particularly in infrastructure and digital delivery, while local government is likely to need more cost-effective service delivery, due to shortfalls in their sources of income.

Capita is the fifth largest strategic supplier to central and local government in the UK, according to Tussell, and the largest provider in the business process and technology-enabled services segments, which leverage both skilled people and technology. Within this, we have leading positions in several focused sectors where we have deep, proven experience and expertise, including education, health, transport, defence, justice, central and local government.

The UK Government has also introduced its outsourcing playbook, to provide a greater degree of collaboration with its suppliers and fairer returns, reshaping contracts at renewal, and is awarding new work under this framework. Local government markets have seen significant reshaping of the landscape, away from general outsourcing to targeted capabilities.

Our strategy

Our strategy is to: focus our business around core market sectors where we have strong positions; offer a refined set of value propositions developed by enabling our people with a defined stack of underlying, replicable digital products and capabilities; invest in a full-lifecycle digital transformation capability; and focus on excellence in our consulting, transformation and operational service delivery performance.

Financial performance

Adjusted revenue decreased in 2020 by 8.8% to £723.8m, mainly as a result of prior-year contract losses in local government and defence infrastructure organisation, partly offset by new business such as the Ministry of Defence's fire and rescue project (DFRP) contract. Covid-19 impacted transactional and volume revenue; however, this was partly offset by Covid-related projects in health and welfare.

Adjusted operating profit fell by 78.6% to £11.1m due to the impact of contract losses, and DFRP adversely impacted profit due to the one-off initial loss. Transformation delays on contracts and bid costs relating to contract wins further reduced profit. The impact of Covid-19 was offset by cash preservation actions.

Adjusted cash from trading operations significantly improved to £5.3m as the decline in profit relates predominantly to the 2019 contract handbacks that were non cash-backed.

Operational excellence

We continued to execute on client delivery across government, and received positive feedback from clients in all verticals, despite the external, Covid-driven challenges including 70% of the division servicing the contracts from home. Throughout the year, we successfully reduced the number of legacy problem major programmes to two. The GP payment and pensions element of the Primary Care Support England PCSE and Electronic Monitoring Service (EMS) contracts transformation have incurred additional cost due to poor quality and delays exacerbated by Covid but significant progress was made on both and we expect them to be substantially complete in early 2021. We expect the contracts to reach the inflection point in 2021 and 2022 respectively. Inability to achieve key milestones could lead to reduced contract profitability and a risk of impairment of the associated contract assets. Since 2018, the major contracts within the division have moved to an overall cash inflow from an overall cash loss, demonstrating the progress made to date.

Operational excellence continues to be the driving force for savings in the division, generating cost savings of £15m by taking out overhead costs and improving the operating model. We continue to work towards a more agile service structure based on leveraging best practice between our chosen verticals.

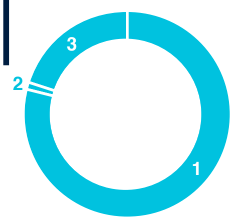
While the legacy contract base caused some challenges, which were exacerbated by Covid-19, recent contracts progressed well and in line with expectations. DFRP's strong start to service and programme delivery along with the establishment of a truly collaborative relationship led to the transfer to Capita of additional service delivery responsibilities. The ultra-low emission zone contract (ULEZ) with Transport for London (TfL) is also progressing well towards the scheme go-live in October 2021.

Investing in growth

We continue to innovate and launched two new digital business process as a service (BPaaS) platforms, Grantis and Resolvis, which are successfully delivering for their first customers in central and local government.

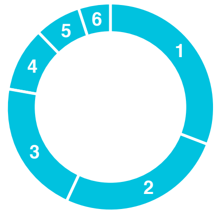
At 31 December 2020, the total unweighted pipeline was £8,516m (including the £0.9bn Royal Navy training contract won in early 2021), an increase of £1,743m since February 2020, with £838m of TCV won. The order book at the year end was £2,057.0m, a decrease of £119.7m since 31 December 2019. Pipeline growth has been generated by TCV increases on existing opportunities, such as from changes in contractual arrangements, and a number of large FY21 onwards opportunities. Our renewals rate across all opportunities was 100%, and 100% on those that we bid for.

Adjusted[1] revenue by type (%)



1 **79%** Long-term contractual
2 **1%** Short-term contractual
3 **20%** Transactional

Revenue by market (%)



1 **31%** Central Government
2 **26%** Local Government
3 **21%** Health
4 **10%** Education
5 **7%** Justice and emergency services
6 **5%** Defence

Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	**723.8**	793.4	(8.8)
Adjusted operating profit (£m)	**11.1**	51.8	(78.6)
Adjusted operating margin (%)	**1.5**	6.5	
Adjusted cash from trading ops (£m)	**5.3**	(19.7)	126.9
Order book (£m)	**2,057.0**	2,176.7	(5.5)

1. Refer to alternative performance measures on pages 204 to 206.

Better outcomes

We delivered the first 54 new firefighting vehicles as part of the company's 12-year DFRP contract. This includes 19 high reach extendable turret strikers and 28 multi-purpose response vehicles – both providing state of the art firefighting technology. The arrival of these appliances is a key milestone in Capita's work to manage and modernise the Ministry of Defence's fire and rescue capability.

Business units

- Defence and security
- Local government
- Justice and central government
- Education
- Transport
- Health and welfare

Employees

- 8,600

Client distribution

- UK

Competitors

- BT
- Atos
- CapGemini
- DXC
- Sopra Steria
- IBM
- TCS
- Serco
- Agilisys
- Mitie
- G4S

Major contract wins and renewals

- Covid-related work of £56m (with service delivery often being provided across Capita)
- Renewal of electronic monitoring worth £114m over three years
- Extension of a local authority contract worth £13m over four years
- Extension and expansion with TfL ending October 2026 worth £355m
- Expansion of DFRP contract worth £67m over ten years

Technology Solutions

Capita is a top-10 service provider of digital IT and connectivity solutions in the UK, focused on the mid-sized enterprise market. We consult, transform and deliver digital solutions to help businesses improve, realise their digital strategies and provide better business outcomes.

Adjusted revenue

£385.0m

(2019: £449.9m) -14.4%

Adjusted operating profit

£34.9m

(2019: £58.0m) -39.8%

We have strategic partnerships with leading global IT vendors, have invested in our portfolio of hosted platforms and operate our own UK-wide network and data centres. Technology Solutions is also responsible for the delivery of IT services and support within the Capita Group.

Our markets and growth drivers

Technology Solutions operates in a broad and fast-changing market. The division is targeting growth in its digital business solutions, platform and cyber segments. These are the fastest growing verticals of the market at an annual rate of approximately 15% from 2019 to 2023 (TechMarketView). Cloud, cyber and automation demand have been further accelerated by the Covid-19 pandemic.

Capita is the UK's largest software and IT services supplier by revenue. Clients depend on our technology to provide high-value, mission-critical services to their customers and users. We are a trusted partner to deliver critical national infrastructure and IT transformation projects, with clients increasingly relying on our technology to extract valuable insights from their data and deliver outstanding customer experience.

Our strategy

Our strategy is to create innovative technology solutions, underpinned by a comprehensive range of services which address the needs of our enterprise clients. Our areas of expertise include: technology consultancy; digital business solutions; platform management; cyber security; digital workplace; and digital connectivity.

We are developing repeatable propositions to meet our clients' needs, with a focus on creating improved customer experience and expanding our client base. We have already started to increase the standardisation, robustness and security of the platforms and processes that underpin our products.

We are also continuing to simplify technology operations, platforms, products and suppliers to generate efficiency savings, strengthen our capabilities, and ultimately deliver greater value to our clients.

Financial performance

Adjusted revenue decreased by 14.4% to £385.0m, due to known contract losses, including BAE Systems, and reduced volumes across a range of contracts. The negative impact of Covid-19 on our transactional and volume-based businesses was partly offset by Covid wins across IT services and intelligent communications.

Adjusted operating profit decreased by 39.8% to £34.9m, due to the above contract losses and reduced volumes, which were only partially offset by cost savings. Cost increases and additional depreciation from completed infrastructure projects also adversely impacted profit. The effect of Covid-19 was almost offset by cash preservation actions.

Adjusted cash from trading operations improved by 40.4% to £72.0m with the reduction in profit more than offset by improvements in contractual working capital, driven by accrued and deferred income inflows from the phasing variations and billing improvements, partially offset by an outflow from increased CFAs largely on networks.

Cost and operational excellence

Technology Solutions was at the forefront of Capita's response to Covid-19. It was responsible for the Group's successful move to remote working with provision of equipment and connectivity for 85% of colleagues, which was only possible due to the investment to date as part of the transformation.

Covid-19 has accelerated the transformation of our working practices, with more than 69% of the division working remotely with no detriment to our operational KPIs. We provided an agile response to client demands and enabled them to continue operating successfully, with very positive feedback from both the private and public sector.

Cost savings were driven mainly by technology, although organisational structure and operational improvement initiatives also generated benefits.

Our main strategic programme has the key purpose of improving the business resilience of hosting, security posture, service quality and ultimately customer experience. During 2020, the programme continued to build capability and successfully migrate our clients from legacy systems to secure Azure or Nuvem hybrid hosting. This helped remove complexity and the limitations of legacy infrastructure, while generating growth opportunities by providing Capita's secure and accredited hosting solution for new digital growth, and helping mitigate the risk of cyber attacks.

In recent Whitelane research, we received the highest percentage improvement for customer satisfaction against UK end-user computing competitors. This rewards a continuous, multiple-year improvement programme to deliver high-quality and resilient solutions to our clients and customers.

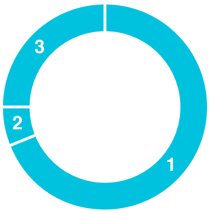
Investing in growth

We invested in our ongoing data centre consolidation and cloud migration programme. We are investing in the development of our fast, digital IT propositions – in cloud, cyber security and automation. These core digital offerings are increasingly in demand as the market adapts to new ways of working.

We will continue to strengthen our partnerships with key technology providers, combining our consulting and delivery expertise with their technologies. Our partnerships with UiPath and Microsoft are working well, gaining a strong reputation for delivering UiPath implementations, and we achieved the Azure advanced specialisation accreditation in windows and SQL migration.

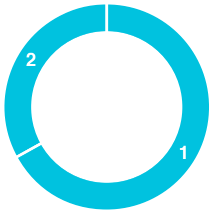
At 31 December 2020, the total unweighted pipeline was £2,027m, an increase of £64m since February 2020, with £332m of TCV won. The order book at the year end was £370.2m, a decrease of £19.5m since 31 December 2019. Our renewals rate across all opportunities was 66%, and 75% on those that we bid for.

Adjusted[1] revenue by type (%)



1 **69%** Long-term contractual
2 **6%** Short-term contractual
3 **25%** Transactional

Revenue by market (%)



1 **67%** Public sector
2 **33%** Private sector

Financial performance

Divisional financial summary	**2020**	2019	Change %
Adjusted revenue (£m)	**385.0**	449.9	(14.4)
Adjusted operating profit (£m)	**34.9**	58.0	(39.8)
Adjusted operating margin (%)	**9.1**	12.9	
Adjusted cash from trading ops (£m)	**72.0**	51.3	40.4
Order book (£m)	**370.2**	389.7	(5.0)

1. Refer to alternative performance measures on pages 204 to 206.

Business units

- IT Services
- Network Services
- Trustmarque
- Intelligent communications

Employees

- 3,500

Client distribution

- UK and Ireland

Competitors

- Adept
- BT
- Atos
- KCOM
- CapGemini
- Computa centre
- Fujitsu
- DXC
- Sopra Steria
- IBM
- Accenture
- Wipro Limited
- Softcat plc

Better outcomes

We secured a three-year contract with major port group, PD Ports Ltd (PD Ports), to implement a managed security operations centre (SOC) and security information and event management cyber security solution. The Capita-managed SOC will support PD Ports' entire IT infrastructure, including two data centres, at 13 ports as well as warehousing and container facilities along the east coast of the UK.

Major contract wins and renewals

- 17 renewals of SWAN contract valued at £11m
- £8m over five years with Cheshire East Council
- One-year extension worth £3m with the Department of Justice and Equality
- £3m three-year contract with UK government's Border Force

Specialist Services

Specialist Services is a portfolio of businesses delivering a range of service offerings including travel, enforcement, insurance, real estate and infrastructure.

Adjusted revenue

£196.5m

(2019: £295.6m) -33.5%

Adjusted operating profit

£(4.4)m

(2019: £44.3m) -109.9%

The division is comprised of businesses which are not within Capita's growth markets. These businesses are actively managed on a portfolio basis in order to maximise value.

Our markets and growth drivers

Specialist Services includes a range of businesses serving public and private clients across multiple vertical sectors, which are generally mature.

We enjoy strong market positions in many of the verticals sectors, with strong brands and positive client perception of our services.

Our strategy

Due to the varied nature of the activities in the division, each Specialist Services business has its own strategy, uniquely tailored to their service offerings and the needs of their clients. The focus across the portfolio is on adding new name business, operational excellence and cost optimisation.

The strategy remains to prepare earmarked businesses for disposal, although the originally envisaged timetable has been impacted by Covid-19.

Financial performance

In 2020, adjusted revenue fell by 33.5% to £196.5m, due to contract losses, as a result of a combination of conscious exits and projects coming to an end, which were only partially offset by contract wins and new transactional revenue streams. Covid severely affected end-markets such as travel and enforcement. Due to the transactional nature of the divisions, with the exception of insurance, Page One, and translation and interpretation, most businesses saw a downturn in revenue.

Adjusted operating profit became a loss of £4.4m as the contract losses adversely impacted profit; these were partially offset by cost savings across all work streams. The fall in transactional revenue caused by Covid was only partially offset by furlough support and discretionary spend savings.

Adjusted cash from trading operations decreased by 78.6% to £9.3m. This was due to a significant contractual working capital inflow, as a result of lower operational volumes, this benefit will unwind when business recovers.

Cost and operational excellence

We rapidly responded to Covid-19 and maintained service levels where possible throughout the pandemic, with around 77% of staff working from home. In those businesses whose end-markets were most affected by Covid-19, we reduced service levels and, took decisive action to cut costs; however, we were unable to cut too deeply in order to ensure a timely recovery. Where possible, we restructured and rationalised to achieve a long-term reduction in our fixed cost-base, including reducing our physical property footprint by almost half.

We expect Covid-19 to have a prolonged impact on several of the division's businesses and we reviewed their long-term operating models to ensure they are fit for the future. Additional savings were generated through automation, procurement and technology.

We strengthened the existing partnership between our insurance business and Artificial, which we established through the Capita Scaling Partner relationship. By bringing together our extensive insurance industry knowledge, compliance expertise and resource, with best-in-class technology we are able to offer clients in the Lloyd's of London Market an end-to-end solution that provides expertise and consultancy across the full insurance lifecycle. The relationship was started in response to a market need for digital solutions to augment existing processing capability for insurers. Covid has exacerbated this need and, through our partnership, we are proactively addressing the changing needs of our clients

Investing in growth

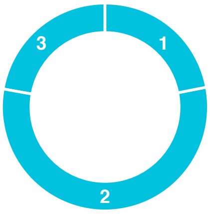
During the year, investment was targeted to preserve cash during the pandemic, with the focus of investment remaining on strengthening security and compliance, as well as developing cloud capabilities.

Our translation and interpreting business applied innovation to strengthen their technology platforms adding new features that enabled them to increase their support to the NHS and police throughout the pandemic, for example interpretation services via Zoom or MS Teams using their SmartMate and LiveLINK platforms.

At 31 December 2020, the total unweighted pipeline was £389m, a decrease of £255m since February 2020, with £182m of TCV won. The order book at the year end was £234.2m, a decrease of £72.4m since 31 December 2019. Due to the transactional nature of the division, the order book is not considered a suitable metric for growth.

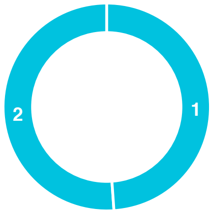
Despite the pandemic we have added a number of new names across the division throughout the year including London Fire, NHS24 (Scotland), London Borough of Hackney, M&S and Sopra Steria.

Adjusted[1] revenue by type (%)



1 **22%** Long-term contractual
2 **56%** Short-term contractual
3 **22%** Transactional

Revenue by market (%)



1 **49%** Public sector
2 **51%** Private sector

Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	**196.5**	295.6	(33.5)
Adjusted operating profit (£m)	**(4.4)**	44.3	(109.9)
Adjusted operating margin (%)	**(2.2)**	15.0	
Adjusted cash from trading ops (£m)	**9.3**	43.5	(78.6)
Order book (£m)	**234.2**	306.6	(23.6)

1. Refer to alternative performance measures on pages 204 to 206.

Better outcomes

It has been a challenging year for the travel and hospitality industry. However, the need for organisations to consider managed corporate travel, meetings and events programmes has never been more important, with the health and safety of employee's top of the agenda. Capita's Travel and Events business has seen the highest number of new business wins in the last four years as organisations seek more comprehensive solutions, onboarding 25 new customers with a win rate of 87%.

Business units

- Travel & Events
- Evolvi
- Insurance Services
- Real Estate and Infrastructure
- GL Hearn
- Page One
- Tascor
- Optima
- Translation and Interpreting

Employees

- 2,900

Client distribution

- UK

Major contract wins and renewals

- Multiple contracts with Highways England in Real Estate and Infrastructure with a TCV of £12m
- Local authority renewal in Enforcement with a £3m TCV
- FloodRE extension worth £2m
- London Borough of Hackney win with Enforcement worth a potential £5m+ TCV

Engaging with our stakeholders

Section 172 statement

The following disclosures describe how the directors have had regard to the matters set out in section 172(1Xa) to (f) and forms the directors' statement required under section 414CZA of the Companies Act 2006.

Stakeholder	What matters to them	How we engaged
Our people	Flexible working Learning and development opportunities leading to career progression Fair pay and benefits as a reward for performance Two-way communication and feedback	People surveys Regular all-employee communications Employee director participation in Board discussions Employee focus groups and network groups
Clients and customers	High-quality service delivery Delivery of transformation projects within agreed timeframes Rapid response to support pandemic planning	Client meetings and surveys Regular meetings with government and annual review with Cabinet Office Created a senior client partner programme giving an experienced, single point of contact for key clients and customers
Suppliers and partners	Payments made within agreed payment terms Clear and fair procurement process Building lasting commercial relationships Working inclusively with all types of business	Supplier meetings throughout source to procure process Regular reviews with suppliers Supplier questionnaires
Investors	Financial reporting Access to the Board and senior management Regular communication	Financial and other reports and trading updates Regular investor programme and feedback throughout the year Governance roundtable for shareholders Remuneration consultation
Society	Social mobility, youth skills and jobs Digital inclusion Diversity and inclusion Climate change Business ethics	Memberships of non-governmental organisations Charitable and community partnerships

Topics of engagement	Outcomes and actions	Key metrics	Further details
Protection of employees during Covid-19 HR policies during Covid-19 Future ways of working as a result of Covid-19 Creating an inclusive workplace	Issue of Capita-specific Covid-19 guidance and regular updates New and temporary HR policies (eg furlough scheme and voluntary salary sacrifice for high earners) Increased provision and support for employee wellbeing and flexible working Simplification of property portfolio and office space	Employee net promoter score People survey completion level	People section on pages 40 to 43 of the strategic report Responsible business section on page 44
Remote working on client services as a result of Covid-19 Current service delivery Possible future services Co-creation of client value propositions	Feedback provided to business units to address any issues raised Client value propositions team supporting divisions with co-creation ideas Senior Client Partner Programme undertaking client-focused growth sprints to build understanding of client issues and ideas to help address them	Customer net promoter score Brand loyalty index Specific feedback on client engagements	Chief Executive Officer's review on page 13 Client relations section on page 48
Supplier payments Sourcing requirements Supplier performance Supplier Charter	Alignment of payments with agreed terms Supplier feedback on improvements to procurement process Improvement plans and innovation opportunities Improved adherence to Supplier Charter	% of supplier payments within agreed terms Supplier Relationship Management feedback score SME spend allocation Supplier diversity profile	Supplier engagement section on page 48
Transformation progress Balance sheet and liquidity Covid-19 response and impact Remuneration	More frequent market communication Increased level of engagement with largest shareholders	Adjusted profit before tax Adjusted free cashflow Net debt and gearing	Shareholder engagement section on page 68 Principal decisions table on page 69
Youth employment Tackling digital exclusion Workplace inequalities Carbon reduction targets	Implementation of real living wage Youth and employability programme Commitments to tackle racism and enhance ethnic diversity	% reduction in carbon footprint Amount of community investment Responsible business report 2020: capita.com/responsiblebusiness	People section on pages 40 to 43 Responsible business section on pages 44 to 49

Putting our people first

During a year like no other, we put our people first in 2020, prioritising their health, safety and wellbeing, and mobilising 85% of our workforce to work from home.

While some of our priorities had to change, we continued to deliver on our HR2020 strategy, ensuring we provided the right support and guidance to all our colleagues.

In 2020, we implemented Covid-19 guidance, policies and procedures to help our colleagues keep themselves and others safe. We continued to develop our people, using the apprenticeship levy, and now have more than 1,000 apprenticeships on the programme. Our global people management system, Workday, was rolled out across Capita; all employees can now manage their data at any time, and from any location or device. We also implemented the People Hub, centralising administrative activities to help ensure our people's queries are answered more quickly. During such a challenging year, some difficult decisions had to be made in terms of pay and reward; but, guided by our purpose, we met our commitment to pay all our UK colleagues the real living wage as a minimum. Our workforce has reduced by around 5,500 colleagues, predominantly due to: the sale of some businesses; redundancies as a result of the pandemic and ongoing transformation; and a cautious approach on recruitment. Our voluntary turnover has remained stable at 20% (23% in 2019).

Prioritising our colleagues' health, safety and wellbeing

Our number one priority throughout 2020 was the health, safety and wellbeing of our colleagues – protecting them and keeping them informed of the procedures implemented to ensure we could all continue to work in a safe manner.

Driven by our Safety, Health and Environment Team, and guided by government guidelines and best practice, we implemented Covid-19 guidance, policies and procedures that informed managers and employees of what they needed to do to protect themselves and others. These have been continually reviewed and updated to align with the latest guidance. In work sites that have remained open, social distancing measures and an enhanced cleaning and hygiene routine were introduced. Alongside this, we rolled out health, safety and social distancing training for all our colleagues, explaining the actions being taken and their role in keeping themselves and their colleagues safe. We also improved our data reporting and management information for health and safety, to better understand trends and take appropriate action when required. This data is shared monthly with the Executive Committee and the Board.

Across the world, people have struggled to maintain mental wellbeing during the coronavirus pandemic, with many of our colleagues concerned about getting sick, government restrictions, and changes in working patterns, or worrying about when the crisis might potentially end. Recognising this, we refreshed our Wellbeing Hub, which provides online support and guidance about mental, physical, social and financial wellbeing issues, as well as promoting our employee assistance programme. Since its launch in April, the Hub has averaged 21,500 visits per month. We published our Working Apart but Together pledge, providing support for the increased number of people working from home, and encouraging ongoing connection and engagement. In May and October, we marked Mental Health Awareness Week and World Mental Health Day, raising awareness of the support we provide and encouraging our colleagues to start the conversation that 'it's ok not to be ok'.

Our new Wellbeing Framework guides the business on the actions we must take to support our managers and employees to live a well-balanced life. We have developed and implemented e-learning content and virtual labs, such as our R U OK? module, to help managers foster psychological safety, trust, emotional intelligence, resilience and a positive mindset within their teams. In October 2020, we also launched a financial wellbeing application, Level, which provides digital budgeting tools, financial education and guidance.

Workforce

55,000

people employed in 10 different countries

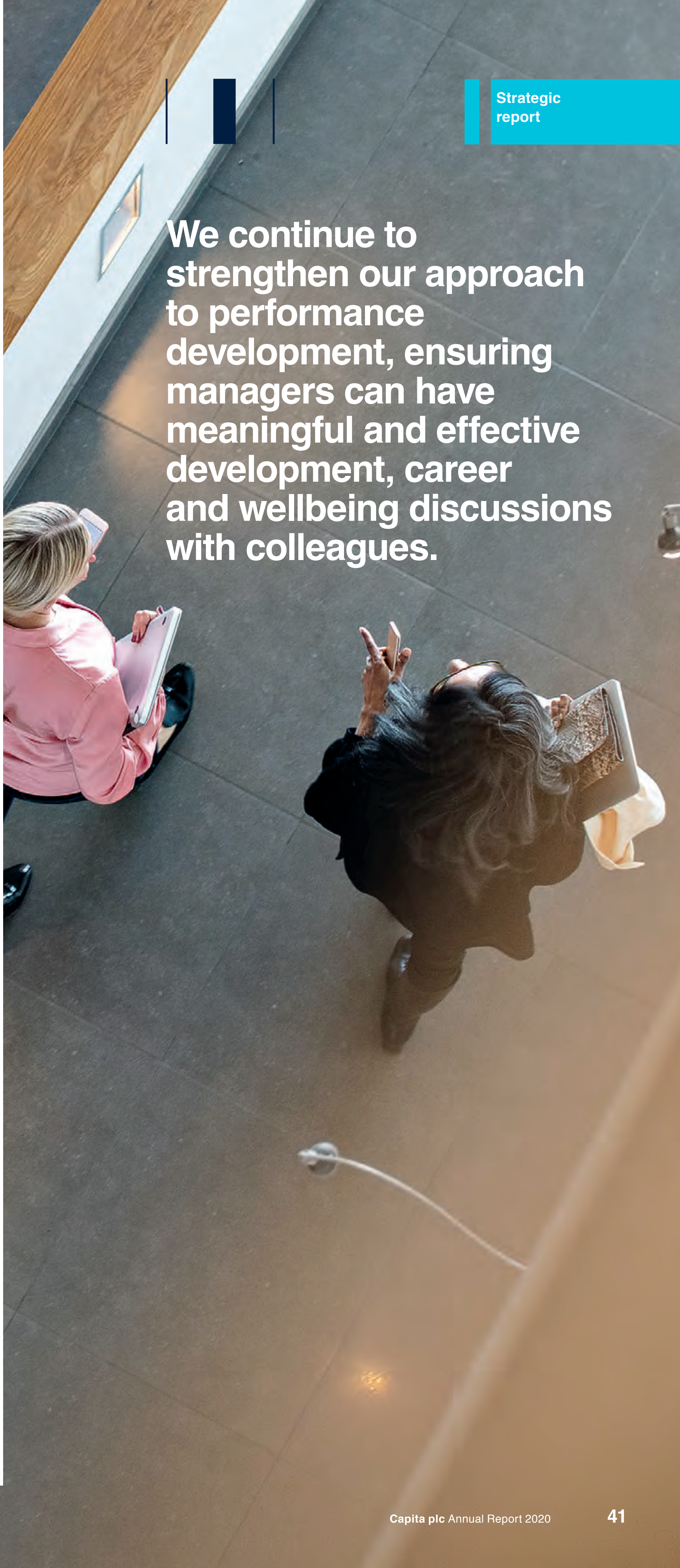
Performance and development

Capita Academy
In 2020, we strengthened our performance, learning and development tool, Capita Academy, providing colleagues with more consistent, streamlined, accessible opportunities to learning, and encouraging development.

We introduced a blend of online development tools, virtual workshops, toolkits and accredited opportunities focusing on both management and programme management modules, and resources for remote working, wellbeing, and diversity and inclusion to support our people as we adapt to new ways of working. In total, 25 modules are available, and almost 12,000 colleagues (around a fifth of the of the total workforce) enrolled on courses.

We also continued to invest in apprenticeships at all levels, building the skills required for the future success of the organisation to better serve our customer needs. In 2020, we were awarded a position in the National Apprenticeship Service's Top 100 Apprenticeship Employers and had approximately 1,000 apprentices on our programmes, with an aim to reach 1,400 in 2021.

Looking forward, as part of our focus on supporting young people into work, we will continue to develop technical level qualifications for school leavers, providing a mixture of classroom and job experience.



We continue to strengthen our approach to performance development, ensuring managers can have meaningful and effective development, career and wellbeing discussions with colleagues.

Developing people's potential
We continue to strengthen our approach to performance development, ensuring managers can have meaningful and effective development, career and wellbeing discussions with colleagues to build their skills for the future. In 2020, we provided managers with online learning and coaching to help them have positive conversations.

We continued to use Workday, supported by our Learning Services Team in Mumbai, to better understand the structure of our workforce, enabling us to streamline and enhance our approach to performance development, learning, talent and succession.

Supporting future leaders
Our online capability tool, My Compass, helps our managers improve their skills and identify any support they need to fulfil our managers' commitments – a key element of how we operate as a business. The tool, which includes online support materials and learning to assist in a wide range of development areas, enables managers to map their career pathways through focused learning and professional development interventions. The tool is available to all managers across our business and 296 accessed it in 2020.

We designed and launched an Executive MBA programme, with funding from the apprenticeship levy, helping high potential colleagues to develop their leadership skills, while supporting their progression at Capita with 46 colleagues taking part in the programme.

To improve gender diversity in senior management, we continue to support high-potential women through our Executive Committee advocacy programme and cross-company mentoring opportunities. In 2020, 40 women were enrolled in these programmes.

Employee network groups

10,000+

colleagues have joined the networks

Reward

Despite the significant challenges presented by Covid-19, we continued to develop our approach to pay and reward. We met our commitment of bringing any lower-paid UK employees up to the real living wage and implemented a number of new tools to help colleagues to improve their financial wellbeing and knowledge.

The unprecedented effect of Covid-19 meant, however, that we had to implement some short-term measures to conserve our cash and protect our people including:

- Senior and high earners taking a voluntary reduction in salary or fees for six months, with additional annual leave being provided for those on the scheme (excluding the Board of Directors).
- Offering a range of voluntary flexible working options, including reduced hours and sabbaticals to support our colleagues as they adapted to changing lifestyles as a result of the pandemic.
- Reducing long-term incentive awards and cancelling bonuses for both the 2019 and 2020 performance years.

These were difficult decisions to make, but the right ones considering the challenges that we were facing.

Resourcing

During 2020, we continued to focus on simplifying the way we recruit, creating a strong resourcing team to partner with the business – retaining and attracting the most diverse people who have the skills, values, mindset and potential we need.

We have built upon our employee value proposition (EVP) pillars following employee feedback – 'be yourself', 'shape our future', 'make an impact' and 'broaden your horizons'. We are embedding these pillars into our employee engagement and recruitment campaigns, bringing them to life with role-model stories from across the business.

Demand for customer service roles has grown, driven primarily by our work to help our clients respond to the Covid-19 pandemic. Working in collaboration with our customer management teams to provide home-working solutions has revolutionised our ability to deliver client solutions remotely, and we have supported large-scale demand for these remote customer service roles. At the same time, we redeployed 1,253 colleagues across the business and provided outplacement support to those colleagues facing the prospect of exiting the business.

Our 'internal first' approach helped the business by using existing skillsets to fill roles that traditionally may have been filled externally. This was not only the right thing to do but also supported colleague retention.

Technology and digital solutions played a major part in 2020. The advancements made in moving to a technology-based hiring approach paid dividends, with Arctic Shores (behaviours-based assessment) changing the way we recruit and allowing different methods of candidate assessment. This was particularly appropriate in dealing with the challenges of the Covid-19 crisis.

Social change also affected the way we approached resourcing in 2020. We reviewed our approaches to diversity and reviewed all our practices through an inclusion lens. We are already doing many things the right way, but we were conscious that complacency should never be allowed to creep in, and work has been ongoing to ensure parity for all in our end-to-end hiring processes. We also made a corporate commitment to the UK Government's Disability Confident Scheme, attaining Level 1 status – 'Committed'.

We launched our Capita Youth Employability Programme in November 2020, in response to the UK Government's Plan for Jobs. It is designed to support young people into work through the Kickstart Programme and through the creation of a Youth Council. We are proud at Capita to be helping to create better outcomes for the young people of the UK.

85%

approximate percentage of our workforce mobilised to work from home during Covid-19

Systems and transformation

All employees at Capita now have access to Workday, our global people management system enabling managers and employees to manage their data at any time and from anywhere or device. Having all employee data on a single system has significantly improved reporting capabilities.

In December 2019, our People Hub team in Mumbai was established. They have continued to provide administrative support across HR including, resourcing, employment relations and payroll. A key focus has been on improving service levels and tracking, which has resulted in 99% of calls to the People Hub now being answered within 30 seconds. The team have also been critical in administering and implementing the UK's Coronavirus Job Retention Scheme for any affected Capita colleagues, and additionally supporting the redeployment process.

The People Hub team will continue to support the growth of our shared service centre for employment relations activities, as well as helping to provide existing services to other countries, standardising our processes across the business.

While we will continue to consolidate our property portfolio, we remain committed to maintaining a strong presence across the UK.

Read more about remuneration at Capita starting on page 90.

Read more about our responsible business work on pages 44 to 49.

Property portfolio

While simplifying our complex and costly property portfolio has always been a part of our ongoing transformation at Capita, it was accelerated in 2020, as a result of the impact of Covid-19 and our transition to new ways of working.

The pandemic crisis made us rethink the location, design and use of our office spaces. As a result, we know we will need in the future to invest to create more flexible and suitably equipped environments which we can use to collaborate, come together and meet with clients and stakeholders.

While we will continue to consolidate our property portfolio, we remain committed to maintaining a strong presence across the UK. We will offer both more flexible working practices and an office footprint.

Reimagining our workplace

Having successfully mobilised approximately 85% of our workforce to work from home during Covid-19, we are now preparing for what may come next – and using what we have achieved to challenge our established ways of working. By empowering our colleagues to work in the most flexible and dynamic ways their roles will allow, we are reframing our vision of work, so that it is about the outcomes we create at Capita, not the physical place we go.

We have listened to our colleagues through our Shaping Tomorrow Together initiative where we've engaged with thousands of our colleagues across the world via surveys and focus groups. Many want to continue to work more flexibly and balance their time between home and the office. It won't be possible for all of us to change how we work but, by engaging with colleagues across Capita, we are working to determine the level of flexibility that will be possible in the future.

Better outcomes

Giving young people a voice: the Youth Council. In response to the UK Government's Plan for Jobs, and to tackle the growing youth unemployment crisis, we have developed an end-to-end youth programme with our partners, The Youth Group and Teach First. A key element of the programme is the creation of our first ever Youth Council. The council, which we launched in December 2020, aims to provide a platform for the voice of the future workforce to be heard within our organisation, ensuring that we create an inclusive organisation to attract young people as well as develop products and services which meet the needs of our future service users and consumers. The council comprises 10 voluntary members aged 18–26, representative of a diverse demographic including culture, ethnicity, gender and socio-economic background.

Seven members of the council are external to Capita and three have been selected from the internal Capita colleague community. Being a youth councillor will offer unique opportunities and experiences. Each youth councillor is assigned a youth group coach, and an external C-suite level mentor to help them maximise the benefits of their time on the council, and to develop their own skills and potential. They will have the opportunity to engage with directors and senior leaders on real business challenges, including quarterly team challenges and individual challenges aligned to their personal learning objectives.

Focusing on what matters

The Covid-19 pandemic has brought significant challenges to the way we all live and work at Capita, from a highly variable demand for our services to a rapid move to home working for the majority of our people.

But our response has been guided throughout by our purpose – we create better outcomes – ensuring we put the health, safety and wellbeing of our colleagues first while maintaining our services to clients and responding to their additional needs as quickly as possible.

Underpinned by our purpose, our responsible business strategy – which was developed following considerable stakeholder engagement and launched in 2019 – defines how we are addressing the global challenges of importance to our business and society, and has been at the heart of our response to the pandemic. During 2020, our actions focused on the challenges thrown into sharp relief because of the pandemic: the wellbeing of our colleagues; inequalities in society, and specifically how young people have been disproportionately impacted; and continuing to ensure we operate responsibly with our clients, our suppliers and throughout our business. Alongside this, events such as the killing of George Floyd and climate change demonstrations have highlighted the need to remain focused on workplace inequalities and fighting climate change.

In 2020, we followed through on our commitment to pay all UK employees the real living wage as a minimum, asking our high-earners to take salary reductions. We refreshed our Wellbeing Hub with relevant resources and tools to support our colleagues adapt to the new way of working. The Hub saw a 600% increase in visits between March and April. In response to the resurgence of the Black Lives Matter movement, we convened an advisory group to recommend a series of commitments and actions to tackle racism and anti-Black behaviour, as well as enhance ethnic diversity, and we continue to carry out these actions. Our commitment to prompt payment has also remained undiminished and we paid 95% of our suppliers within 60 days or less.

As with any crisis, communication has been crucial, and our regular internal communications have ensured colleagues stay informed and have access to the tools and support they need.

Our responsible business committee met regularly throughout the year with a focus on modern slavery, inclusion and diversity, wellbeing and climate change.

Refocusing in response to Covid-19

Our five-year responsible business strategy, which we launched in 2019, has helped to ensure we remain focused on addressing the issues where we can have the biggest impact through our own operations and through the products and services we provide to our clients.

In 2020, we refocused our priorities on the issues that mattered most – our colleagues' wellbeing and engaging with our colleagues, creating an inclusive workplace, tackling economic inequalities, fighting climate change, and ensuring we continue to operate responsibly throughout our business.

Prioritising our colleagues' wellbeing

Across the world, people have struggled to maintain mental wellbeing during the coronavirus pandemic. Recognising this, we prioritised the wellbeing of our people providing online support and guidance, as well as promoting our employee assistance programme. To find out more, please see 'prioritising our colleagues' health, safety and wellbeing' in the People section.

Engaging with our colleagues

Crucial in any crisis is clear, concise communications. We appointed a dedicated communications lead to work closely with our pandemic planning team to ensure our colleagues received accurate and easily accessible guidance and information relating to Covid-19 – focusing on their welfare as a priority and reassuring them of the steps that we were taking. We also launched a dedicated colleague website which can be accessed by all employees including anyone who was furloughed.

Given the high levels of uncertainty that emerged in 2020, it has never been more important to motivate and engage our colleagues – whether through campaigns such as #justsaythanks and our Working Apart But Together pledge, through visible leadership, or by involving our people in shaping our future ways of working. More than 24,000 colleagues responded to our Shaping Tomorrow Together survey to tell us how they'd like to work after Covid-19, and over 3,700 colleagues regularly join these conversations on our internal Yammer community.

Our people survey

Annually we ask our people how they like working at Capita and how they think we are progressing as a progressive, purpose-led and responsible business. We use the data to understand long-term cultural and behavioural trends and to prioritise what we need to focus on in the next year to meet the needs of our people. We have made progress against what we heard in 2019: we pay all UK employees the real living wage as a minimum; we launched the Capita Academy Hub providing accessible online learning modules to all colleagues to develop them in their careers; and we launched seven employee network groups to value the diversity of our workforce and enable colleagues to share their voice.

72% of colleagues responded to Our People Survey 2020, matching our 2019 participation rate and demonstrating our ability to maintain our overall employee engagement in unprecedented times. Our employee net promoter score (eNPS) maintained its upward trend, rising by seven points this year (following a positive 14 point swing from 2018 to 2019). With results varying between our divisions, however, we will continue to work hard to create an inclusive workplace where everyone feels their voice can be heard.

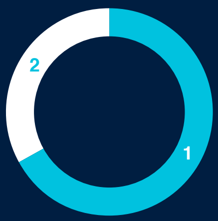
2020 was the second year in which employees were able to rate their line manager's performance against our eight managers' commitments. These commitments set out the additional behaviours we expect from all our leaders and managers. Across all eight commitments, over 80% of respondents agreed that their manager was living by our values and demonstrating our behaviours. The feedback is fed into annual development discussions and can help inform managers' objectives.

We are addressing the global challenges of importance to our business and society.

People	Community	Planet	Operating responsibly
Delivering our strategy themes			
Building a more inclusive organisation	Driving greater social mobility Enabling better digital access	Reducing our environmental impact	Operating responsibly for our stakeholders
Goals			
• Ensuring our workforce reflects the diversity of the communities we serve and is inclusive.	• Empowering 100,000 young people in the communities we serve to progress into the world of work by 2023. • Equipping 10,000 people in our communities with the digital skills required for today's world by 2023.	• Seeking to reduce our carbon footprint and supporting our clients to do the same.	• Seeking to integrate environmental, social, ethical and governance considerations across our business operations.
Areas of focus			
• Prioritising our colleagues' wellbeing • Engaging with our colleagues • Reimagining our workplaces • Building an inclusive organisation	• Tackling youth unemployment • Promoting digital skills for all	• Tackling environmental challenges with clients • Improving our environmental performance • Adapting to climate change	• Client relations • Supplier engagement • Ethical business
Supporting the United Nations' Sustainable Development Goals			
3, 8, 5, 10	4, 8	13, 11	8, 12

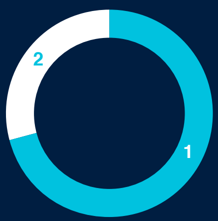
Employee gender diversity

Board



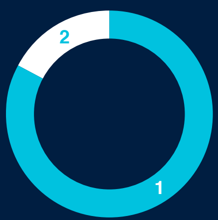
1 67% Male
2 33% Female

Executive Committee



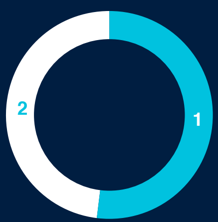
1 71% Male
2 29% Female

Senior management*



1 83% Male
2 17% Female

All employees



1 52% Male
2 48% Female

* Senior management includes directors of subsidiary legal entities as per requirements of the Companies Act section 414C(8)(c)(ii) and 414C(10)(b).

Building an inclusive workplace

During 2020, we recognised that we needed to accelerate the actions we were taking to create an inclusive organisation and deliver on our purpose to many of our Black, Asian and minority ethnic colleagues. As a result, we instigated a series of actions to tackle racism and enhance ethnic diversity. We refreshed our approach to diversity and inclusion, ensuring we remain committed to creating a workforce that reflects the diversity of the communities we serve, and a working environment in which no one feels excluded. We are focusing on: improving our data intelligence and reporting; creating a more inclusive culture by embedding inclusion throughout our employee lifecycle; and valuing difference through awareness and education.

In March 2020, we launched our Be Counted campaign to encourage our colleagues to update their diversity data in Workday. We have applied an inclusive lens to our recruitment, performance management, training and mentoring and advocacy schemes. As a result inclusive recruitment is a key pillar of our refreshed resourcing strategy and in 2020 we: expanded our cross-company mentoring schemes to support 80 participants (25% gender/75% ethnicity); launched a mutual mentoring scheme to support minority ethnic colleagues; and refreshed our diversity and inclusion training to include an anti-racist module.

We launched seven employee network groups in March. The networks, which are sponsored and championed by Executive Committee members, give more voice to our people through a two-way feedback loop between the groups and our sponsors. They encourage colleagues to share experiences and ideas on how we can create a more inclusive organisation. More than 10,000 colleagues have joined the networks.

In 2020, we celebrated and promoted inclusion and diversity through several successful, company-wide campaigns, including: Mental Health Awareness Week; Armed Forces Week; Pride; International Women's Day; Black History Month; and International Day of Persons with Disabilities. Additionally, we shared guidance with our communications team on marking religious festivals.

More information about our approach to diversity and inclusion, as well as our data on ethnicity, disability and sexual orientation can be found in our Responsible Business Report 2020 – www.capita.com/responsible-business.

Community investment

£2.1m

(2019: £2.8m)

Tackling economic inequalities

The Covid-19 pandemic has highlighted the importance of supporting our local communities. Research has shown that it is young people who have borne the brunt of the initial consequences of the crisis, from significant educational disruption through to the highest levels of job insecurity, furlough and unemployment; it is estimated that up to 40% of young people who leave education during the crisis will experience long-term employment and pay 'scarring'[1]. Throughout this crisis, we have maintained our focus on equipping young people with the skills they need for the workplace and enhancing social mobility. In 2020, we invested £2.1m in our local communities through charitable donations, volunteering, gifts-in-kind and employee fund-raising.

We continued to support our corporate charity partners, Teach First and Young Enterprise, as they adapted their programmes to provide online support to young people improving their employability skills. In 2020, through our financial and in-kind contributions, we supported 6,779 young people. As part of our Young Enterprise partnership, we sponsored the Young Money Challenge which challenged young people, aged 4–19, to think about responsible consumerism and how their spending choices can impact the planet. 1,000 young people took part and our volunteer judges were hard pressed to award a winner. This was the final year of Capita being headline sponsor for the UK Social Mobility Awards and we were delighted that the team at Making the Leap made sure the awards went ahead. Enhancing our response to the issue of youth skills and employment, we also established a wider Youth Employability Programme, working with The Youth Group charity to support young people in education and as they enter the workplace.

The programme will build on the success of our charitable partnerships and fully embraces the UK Government's Kickstart programme providing 16 to 24-year-olds with a six-month work placement which could lead to permanent positions.

Fighting climate change

Covid-19 has also underlined the importance of business resilience in its broadest sense and served as a reminder of the ongoing challenge of climate change.

With many of our colleagues working from home, people not being able to travel because of Covid-19 restrictions and the ongoing optimisation of our property portfolio, we have achieved a 40% reduction in our carbon footprint (based on absolute location-based emissions). Emissions emanating from business travel have reduced by 60%. Through our Smart Data Communications Company (DCC) contract, we are supporting a lower-carbon economy by building and implementing a new secure data network to connect smart meters to the systems of energy suppliers and network operators, which is projected to save 45 million tonnes of carbon by 2034 in Britain alone. By November 2020, we had installed more than seven million smart meters onto our network, paving the way for better use of energy. By delivering Transport for London's ultra-low emission zone (ULEZ), we have helped reduce NO_2 levels in London by 44% (compared with February 2017) and 79% of vehicles entering the capital are now complying with the minimum emission standards.

In January 2021, we were proud to be accredited by the Science-Based Target Initiative (SBTi) for our company-wide carbon reduction targets, which are to reduce absolute scope 1, 2 and 3 (business travel) greenhouse gas (GHG) emissions 46% by 2030 from a 2019 baseline, and to ensure that 50% of our suppliers by spend covering purchased goods and services and capital goods will have science-based targets by 2025. Progress against our targets will be monitored annually. We also published our first disclosure statement against the recommendations of the Financial Stability Board's task force on climate-related financial disclosure in our responsible business report 2020 www.capita.com/responsible-business.

1. https://www.resolutionfoundation.org/publications/young-workers-in-the-coronavirus-crisis/

Responsible business report 2020:
capita.com/responsible-business

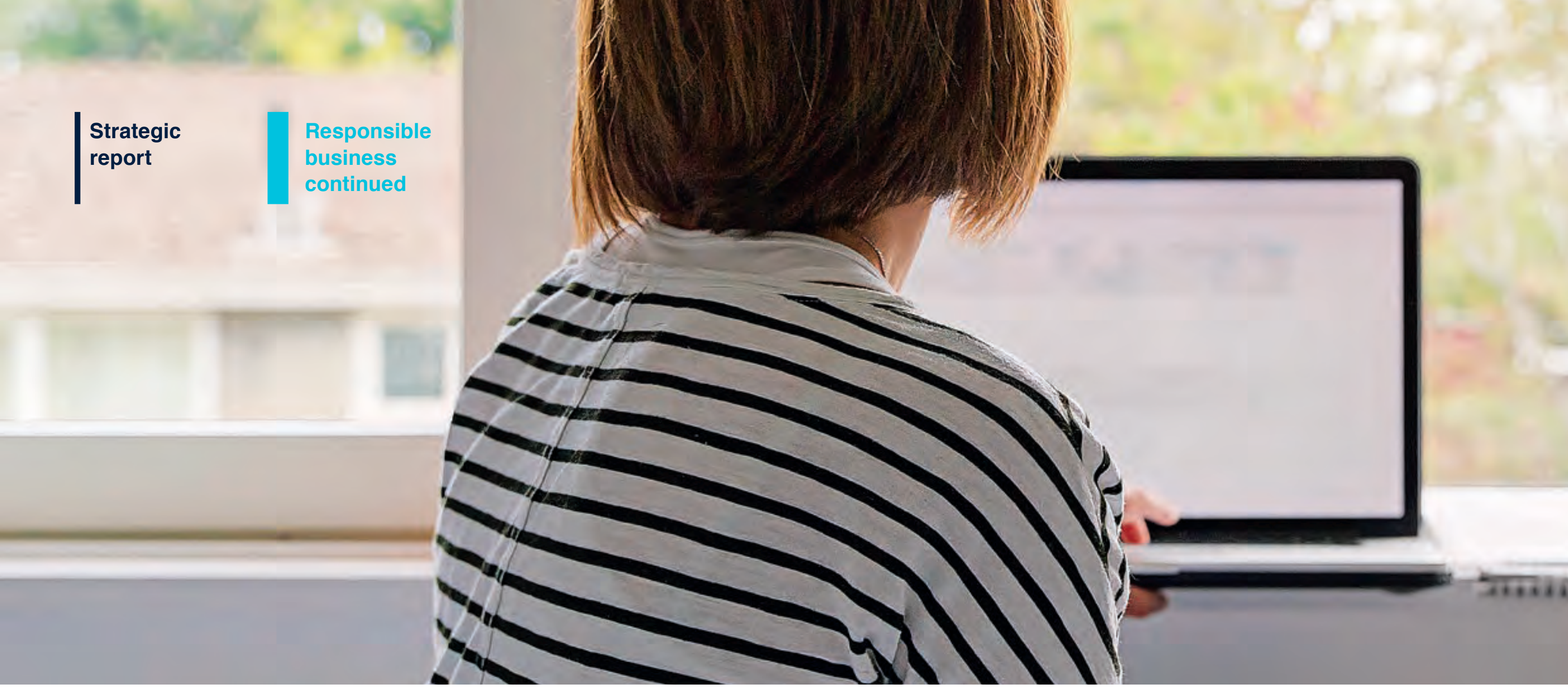
We remain committed to creating a workforce that reflects the diversity of the communities we serve, and a working environment in which no one feels excluded.

Black Lives Matter

During 2020, we recognised that the actions we were taking to create an inclusive workplace at Capita were not happening fast enough and that we had to act. The first step in our three-stage plan was to take a stand publicly in May, following the killing of George Floyd in Minneapolis, and the issues raised by the Black Lives Matter movement; we announced on our website – and via an open letter to all UK businesses – our commitment to fight inequalities, wherever they may be. Stage 2 was to sit down and listen to our Capita colleagues' concerns and get feedback on what they felt about racist behaviours and what could be done about them. We listened to more than 2,500 colleagues and, using their insight, our advisory group, which we convened with our Embrace network for race and ethnicity, recommended a series of commitments and actions that we should take as a business to tackle racism and enhance ethnic diversity. Our Executive Committee unanimously approved our commitments. Stage 3 is for us to now take action and deliver on them.

Our commitments are to:

- Ensure an inclusive culture with zero tolerance to racism.
- Have a sustainable representation of ethnic diversity, which reflects the communities we operate in, at all levels of the workplace.
- Educate about and raise awareness of racism in the workplace, through the power of our networks.



Annual greenhouse gas emissions

We measure our environmental performance by reporting our carbon footprint annually in terms of tonnes CO_2 equivalent (tCO_2e) and tonnes CO_2 equivalent per person. The data relates to Capita's owned and leased facilities under its operational control across all geographies. We report separately on our direct emissions from Capita-controlled and owned sources (Scope 1), indirect emissions from consumption of electricity, heat or steam (Scope 2), and emissions from third parties (Scope 3). This ensures our compliance to Part 7 of The Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 which requires certain disclosures in respect of greenhouse gas emissions (the Strategic Report GHG Emission disclosures). Corporate Citizenship was engaged to provide independent limited assurance over the selected greenhouse gas emissions data (highlighted in the table below with a *) using the assurance standards ISAE 3000 and 3410. Corporate Citizenship has issued an unqualified opinion over the selected data; their full assurance statement is available at www.capita.com/responsible-business.

Methodology

Our disclosures cover sources of our greenhouse gas emissions from our operations in UK, Ireland, Europe (Poland, Germany, Switzerland, Austria), India and South Africa. Capita converts the consumption data into a carbon footprint with consideration for the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI) Greenhouse Gas Protocol, together with the latest emissions factors from the UK Department for Environment, Food and Rural Affairs (Defra) or, where available, the latest industry factors, such as hotel stays from the Green Tourism Board Scheme.

Operating responsibly

As we have flexibly and efficiently met the needs of our clients to help them respond to the Covid-19 pandemic, we have maintained our focus on operating responsibly throughout our business.

Annual greenhouse gas emissions

	2020	2019	2018
Scope 1 (tCO_2e)	18,979.79*	18,960.67*	18,819.24
Scope 2 (tCO_2e) (location-based)	28,359.28*	41,894.14*	45,174.51
Scope 2 (tCO_2e) (market-based)	23,526.27*	27,651.00*	
Scope 3 (tCO_2e)	7,881.37*	30822.46*	36,401.06
Total gross tonnes of CO_2e (location-based)	55,219.44	91,677.27	100,394.81
Total gross tonnes of CO_2e (market-based)	50,386.43	77,434.13	
Total gross tonnes of CO_2e/£1m revenue (location-based)	**16.61**	**24.92**	**25.62**
Total gross tonnes of CO_2e/headcount (market-based)	**0.99**	1.50	1.59

Notes:
Total gross tonnes of CO_2e/£1m revenue (location-based) in 2020 has been calculated using unadjusted revenue. In 2019 and 2018, adjusted revenue has been used.
Scope 1: Emissions from Capita sources that are controlled by us, including the combustion of fuel, company-owned vehicles and the operation of our facilities.
Scope 2: Emissions from the consumption of purchased electricity, heat or steam.
Scope 3: Emissions from non-owned sources related to Capita's activities, including business travel and waste.

Client relations

We actively seek the views of our clients through a customer net promoter score (cNPS) survey. Since 2019, the actions we have taken to address areas identified by our clients include: implementing and rolling out Salesforce as our single customer relationship management (CRM) platform; assigning a dedicated client partner to each of our key clients; and rolling out training and coaching support to our growth and account management teams.

In 2020, we received feedback from more than 1,020 individuals across 638 clients, some spanning multiple business divisions, representing a 53% response rate (up from 38% in 2019). The results gave Capita a cNPS score of +32 for 2020, a 17-point increase on 2019.

In the survey, we ask clients for feedback on our current performance and advice on areas that they would like us to focus on in future. For 2020, we also asked for insights on how we could support clients during and post the Covid-19 pandemic. This information was fed back to our teams who worked to understand any root causes of issues raised and set actions, which will be monitored via Salesforce.

With 70% of those we surveyed in 2019 responding again, and a response from all of our elite accounts, we see this as a key indicator of the success of the steps we took during our transformation programme.

Supplier engagement

In 2020, we spent £2bn with more than 24,540 direct suppliers in 87 countries. We value, and seek to build lasting, business relationships with our suppliers, treating them and partners fairly and paying promptly. We want to work with suppliers who share our values and support us in delivering our purpose.

Our aim is to encourage and work with suppliers to achieve the highest standards within our supply chain. We are committed to working with our supply-base to ensure that together we can achieve wider social, economic and environmental benefits.

In December, we published our revised supplier charter, strengthening our commitment to: support more small and medium-sized enterprises (SMEs); increase the diversity of our supply chain; promote

Non-financial information statement

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

Reporting requirement	Policies and standards which govern our approach	Where is this referenced in this report?
Environmental matters	• Health, safety and environmental policy	• Responsible business: sustainable innovation page
Employees	• Code of conduct (E) • Health, safety and environmental policy (E) • Diversity and inclusion policy (E) • Employee handbook (I)	• Our people section pages 40 to 43 • Responsible business: building an inclusive workplace page 46 • Diversity data (in people section)
Human rights	• Human rights policy (E) • Supplier charter (E) • Modern slavery statement (E) • Information and cyber security policy (E) • Privacy policy (E) • Employment screening policy (I)	• Responsible business: operating responsibly – supplier engagement page 48 • Responsible business: operating responsibly – upholding human rights page 49
Social matters	• Community and charity policy (E) • Community and charity standard (I) • Volunteering FAQ (I) • Matched funding FAQ (I) • Fundraising FAQ (I)	• Responsible business: digital inclusion page 45 • Responsible business: youth skills and jobs page 46
Anti-corruption and anti-bribery	• Anti-bribery and corruption policy (E) • Financial crime policy (E)	• Responsible business: operating responsibly – bribery page 49
Due diligence and outcome	• Risk management framework • Annual internal audit plan • Risk register • Audit and Risk Committee report	• Risk management framework pages 50 to 53 • Audit and Risk Committee report pages 80 to 89
Business model		• Business model page 6
Non-financial key performance indicators		• Non-financial KPIs page 17 • Responsible business

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

supply chain resilience; and encourage ambitious carbon reduction targets to tackle climate change. All new and renewing suppliers are expected to comply with this charter.

We are signatories to the UK government's Prompt Payment Code, reporting our payment practices and performance to the government every six months. In 2020, we paid 72% of micro-organisations and 85% of our SME suppliers within payment terms. In all cases, 95% of our suppliers were paid within 60 days or less.

In accordance with the UK Modern Slavery Act, we published our Modern Slavery Statement online www.capita.com/modern-slavery-statement.

Employees on the Board

Our two employee directors, Lyndsay Browne and Joseph Murphy, are nearing the end of their first term on our Board, having provided an invaluable employee perspective and voice for our employees at the most senior level. In 2020, their focus was on: providing an employee perspective on the annual people survey results; engaging with colleagues in India and South Africa at the start of the pandemic regarding governmental wage support programmes; and providing oversight and challenge to our decisions as a result of the pandemic to the working environment, such as working from home guidance, leave arrangements and the decision to proceed with the real living wage.

Targeting bribery and corruption

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

Upholding human rights

We aspire to conduct business in a way that values and respects the human rights of all our stakeholders. Our human rights policy details our commitments to upholding the principles of human rights, as set out in the UN declaration of human rights and the International Labour Organisation core labour principles. We comply with all relevant legislation, including the UK Modern Slavery Act which is detailed further online.

Protecting privacy

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

Our privacy policy details how we expect everyone to take responsibility for privacy, including the protection of data, applying our privacy standards, procedures and guidance in their areas of the business. These requirements include maintaining information asset registers, following a comprehensive incident management process, completing privacy by design and default and data protection impact assessments. We continue to raise awareness of the importance of privacy through our mandatory training and ongoing communication programmes.

Internal control and risk management

We proactively manage risks

At Capita, we recognise that effective internal control and risk management is fundamental to helping us achieve our strategic objectives. Our ability to identify, assess and successfully manage current and emerging risks is critical in securing the success of our business and protecting long-term shareholder value. The global Covid-19 pandemic presented us with several challenges throughout the year which we successfully navigated, and we will continue to do so as the risk and government responses evolve.

Our response to Covid-19

The Board, supported by the Group Audit and Risk Committee (ARC), reacted immediately to address the unplanned and unprecedented impacts of Covid-19, and has continued to monitor the situation. Our priorities were:

- To continue to deliver the essential services that our clients and the general public rely on us for.
- Maintain the financial stability of the Group.
- Protect the wellbeing of all our colleagues.

Capita continued to protect and safeguard the wellbeing of all colleagues in the long term as the rollout of vaccines paves a way to recovery from this unparalleled pandemic. The Board has introduced measures to protect employees and clients, and to act within Government guidelines. The Group has also been active in assisting all clients to confront the pandemic, including specific support provided to the UK Government.

In response to Covid-19, the Board, ARC and Executive Committee considered a number of key areas requiring focus and immediate attention. They ranged from people, liquidity and cash preservation to continued operational excellence and regulations. Additional meetings were scheduled to approve the policies required and monitor performance against the objectives set. This was a critical response to the new risks presented by the pandemic and required the Board and committees to be agile in response, as the scenario presented could not have been pre-planned.

The Board welcomed the full engagement from all employees in addressing the risks thrown up, which touched many areas of the Group and directly impacted the ways of working and interacting with our stakeholders.

Some of the measures taken included:

- Immediate actions to safeguard the Group's cash requirements, such as putting on hold capex-intensive projects, utilising the Government schemes to defer payments including VAT, and accessing the furlough grant scheme where necessary. The Group acknowledged the impact on our supply chain and continued to honour our commitment to prompt payments while engaging with clients on payment deferral plans.
- All senior employees within the Group consented to a pay reduction at the height of the pandemic.
- The Group developed its cash flow models to project the liquidity requirements, ensuring the Board had visibility and the most accurate view possible of future cash flows.
- We accelerated the transformation plan activities, including the closure of the Company's head office property in London and accelerating other property exits, as employees adapted to remote working. This will continue as a longer-term objective as we adopt new ways of working.
- Technology Solutions took decisive action to equip a large number of employees with the laptops and equipment required to work effectively from home. Additional measures were also introduced to protect data given the remote working conditions.
- The Board and committees scheduled additional meetings to review progress made against the objectives introduced and considered a range of scenarios, including continuity and contingency plans, to address various models related to the pandemic and the global recovery.
- Capita has reviewed its principal risks considering the pandemic and adjusted where necessary. For example, the health, safety and longer-term wellbeing of all of our employees was identified as an emerging risk.

Our internal control and risk management journey

Capita launched a transformation programme in 2018, that touches all parts of the Group and with a direct impact on driving the strategic objectives. The successful delivery of the programme requires a risk management and internal control framework to support an annual evaluation by the Board of the emerging and principal risks facing the Group. The Board conducted a robust assessment of the principal risks, including those that would threaten Capita's business model, future performance, resilience and liquidity.

The Board asked the ARC to support the assessment by overseeing an effective risk management and internal control system, providing regular oversight over the principal risks and the strategies in place to mitigate them.

As part of the transformation programme, the ARC considered the risk management and control frameworks in place, and over recent years embarked on improvement plans to introduce greater rigour and standardisation of processes and controls, enabled by IT to underpin the effectiveness of such frameworks. Progress has been made on many aspects, and more was planned for 2020 before the impact of Covid-19.

As a result of the pandemic, the ARC had to pause certain aspects of the improvement plans in early 2020, to address the immediate pandemic risks. As the economic climate stabilised toward the end of 2020, the ARC reset the priority areas. The ARC continues to drive the improvements required to enhance the internal control and risk management processes, for these to be effective and fit for purpose for a group of Capita's size and end-market.

Improvement initiatives

The ARC has previously reported on the multiple initiatives launched to develop the risk management approach which is based on a three lines of defence model.

As the transformation of Capita has progressed, it has become evident that continued focus on our people, culture, systems, processes and controls is required – to drive greater awareness and consistency in how we identify, manage and mitigate risks. The key features are set out below:

The risk management process was redefined in 2019 with an enhanced focus on:

- Risk environment.
- Risk assessment, response, and mitigation actions.
- Monitoring and reporting.
  - the Group executive risk committee (ERC) was established to oversee and challenge the key business risks and compliance activities.
  - a specific financial services risk committee was reconstituted in 2019 to provide oversight of the regulated and financial services businesses within Capita.
  - the Group embarked on an update to the enterprise risk management framework (ERMF), and a comprehensive control risk self-assessment (CRSA) tool was developed and piloted in 2019.
  - the Group embarked on a finance transformation programme to drive improved data quality and standardisation of activities performed by the finance community. This has included an evaluation of financial controls by the senior finance team to review the material financial controls in place for effectiveness. The finance transformation will be supported in the future by the introduction of a new accounting system.

The above initiatives were further advanced in 2020, supported by the following key activities:

- A key control questionnaire (KCQ) process was developed and completed which identified key entity level controls across 14 Group wide areas. Every business leader was required to attest compliance with key controls within their functional, divisional, and business areas.
- Across the finance teams, the annual control questionnaire process was enhanced and completed where every business leader attested to compliance with a set of key financial controls.
- Senior management provided an assessment of the control environment following a stabilising of the initial pandemic crisis; specific attention was given to the plans to improve cyber and IT resilience.

The next stage of the improvement plan will be ensuring that the responses to the KCQ are developed and evidenced, such that the responses can then be subject to independent assurance.

Throughout 2020, the principal risks continued to be periodically reviewed by the ERC, ARC, and the Board. Focus and attention were placed on the new emerging risks, and the lessons learnt from adapting to the risks and uncertainties introduced by the pandemic. Robust assessment of the principal risks facing the Group was regularly undertaken, including emerging risks such as the impact of Brexit and the impact of Covid-19 on our business and on the health, safety and wellbeing of our people.

The Board believes that Capita remains too dependent on managers intervening and there is too much inconsistency in process across the Group. The Board and ARC do not underestimate the journey that needs to be completed, in alignment with the transformation plan, to ensure robust internal control and risk assessment frameworks are embedded fully. Establishing and embedding frameworks that are effective, with clear accountabilities between line management and support functions which can be subject to independent assurance, is the key focus for 2021.

Risk governance

The tone for risk management is set by the Board, which is ultimately accountable for providing strategic governance and stewardship of the Company. The ARC, which has delegated responsibility from the Board for maintaining an effective risk management and internal control system, provides regular oversight over the principal risks and the strategies in place to mitigate them.

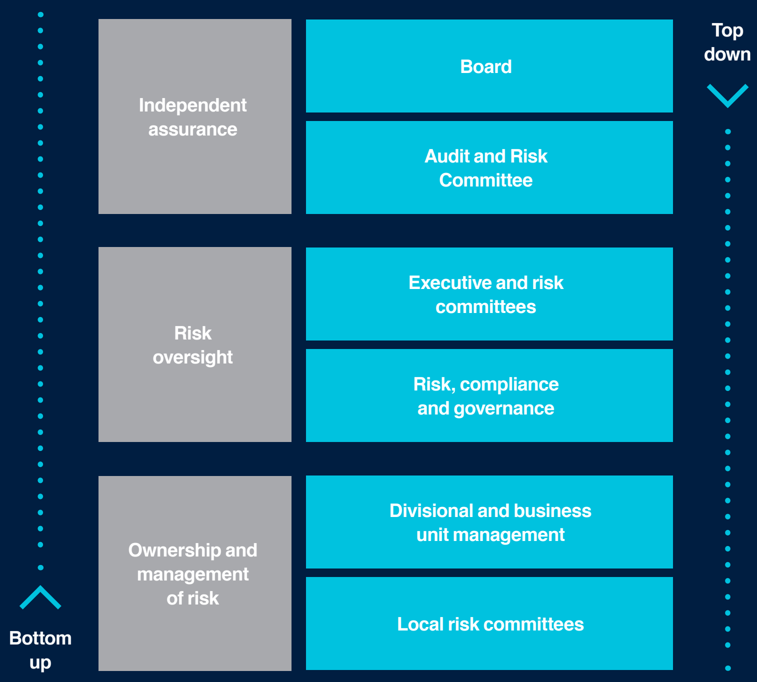
In 2020, the ARC reviewed, discussed and briefed the Board on risks, controls and assurance, including the annual assessment of the system of risk management and internal control, to monitor the effectiveness of the procedures for internal control over financial reporting, compliance and operational matters.

The role of the Group ERC is to assess, oversee and challenge key risks across all Capita's unregulated businesses and provide regular updates to the ARC. The role of the financial services risk committee (FSRC) is to provide oversight of the regulated financial services businesses. Capita recognises the importance to clients and customers of the financial services businesses it operates, and the need for specific oversight to manage and mitigate risks associated with those businesses. The FSRC is chaired by an independent non-executive and provides regular updates to the ARC.

On a day-to-day basis, senior management, divisional heads, and business unit teams manage and monitor risks that fall under their remit. The risk governance structure provides a clear distinction between Group functions, which define policies, standards and procedures, and the divisions and business unit teams, which are responsible for effective implementation of those requirements. Ongoing regular discussions take place between all levels of the organisation to agree the most effective ways to mitigate risks, and to ensure there is a clear understanding of any compound risks. Discussions also identify independent risks that require cross-functional or cross-divisional collaboration.

Further work is planned in 2021 to refresh and apply a consistent three lines of defence approach across all business activities with the aim of ensuring that assurance accountabilities are understood fully and that effective control measures are in place for the risks that have the highest potential impact. The Board gains assurance about the management of risk from the model on page 52.

Risk governance structure and assurance lines



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Third line of defence
- Report directly to the Board and ARC on the effectiveness of governance, internal control and risk management, through an independent risk-based assurance programme
- Help safeguard the first two lines and recommend improvements as the risk profile adapts and changes

2

Second line of defence
- Provide the policies, framework, tools, techniques and support to empower risk and internal control to be managed by the first line
- Establish monitoring controls, provide oversight and regularly evaluate the effectiveness of the first line
- Promote consistency of the key objectives and management of risk across the Group

1

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

Internal controls

A KCQ process was developed and completed during 2020. The results serve as a baseline for improvement and while there have been notable improvements in the control environment in recent years, eg bid reviews, there is still improvement to be made. The process helped verify known control weaknesses in IT resilience and cyber security. These weaknesses are, and will continue to be, addressed at a Group and division/function level by implementing effective corrective measures.

During 2020, a Group accounting policy manual and, for some areas, newly developed standard ways of working have been issued. A financial control tool was developed during the year to document existing key control detail at a business unit level and link to standard ways of working as they continue to be developed. Actions to improve compliance with key financial controls are logged and tracked through the tool. The process of identifying and documenting the key controls is further supported by necessary assurances from divisional management.

During 2021, further work will be taken to improve elements of our control framework. Action plans supported with investment to address some of the IT resilience and cyber security weaknesses are in place. Work will also continue to further enhance certain elements of the financial control framework. As we restructure our business, we will clarify the accountability, responsibility and strengthen our three lines of defence model, including maturing our internal control framework. The executive risk committee will provide oversight of these activities.

Risk management process

The Group works in collaboration with the divisions, Group functions and business unit teams to undertake a bottom-up identification and assessment of the key risks faced by Capita. These risks are referred to as principal risks and can be a single risk or a set of aggregated risks which, when taken together, are significant for the Group. Risk registers, which are maintained at each layer of the organisation, continue to be a core component within our risk management process. Each of the key risks identified has an assigned risk owner who reviews them, on at least a quarterly basis, as part of the risk reporting process. Principal risks are managed by a dedicated member of the executive team who has ownership and accountability for ensuring that the risk is managed within the risk appetite levels set by the Board. Divisional, functional, and business unit risks are assigned risk owners who hold senior positions within the Group and are either members of the executive team, divisional heads or business unit team leaders. This ensures the appropriate level of attention and focus is applied in addressing the principal risks applicable to the Group.

Risks in the risk registers are assessed at both an inherent (pre-controls) and residual (post-controls) level, against two scales: (a) their likelihood; and (b) their potential consequences to the Group. The assessment of consequences includes financial, reputational, legal, and regulatory impacts. These risk assessments are designed to ensure a thorough assessment of the risks, as well as the associated controls and mitigations. They also help to identify what additional risk reduction actions may be needed to reduce the residual risk level to the risk appetite level set by the Board.

As part of the risk management process, an evaluation of financial controls is undertaken by the senior finance team to review the material financial controls currently in place and to identify areas where these might only be partially effective or be inefficient in achievement of their purpose. Any material issues are dealt with through mitigating activities to ensure the effectiveness of the existing controls over financial reporting

Capita recognises that risk cannot be completely eliminated and that there are certain risks the Board will decide are acceptable to enable the pursuit of particular business opportunities. These decisions are informed by robust risk assessment and with decisions taken at an appropriate authority level and reflect the Group's defined risk appetite.

Risk appetite

The Board is responsible for setting and monitoring the risk appetite, and articulates which risks Capita should not tolerate, which should be managed to an acceptable level and which should be accepted to deliver our business strategy. As part of the ERMF enhancement, the risk appetite is being updated to refine them into a more granular tool to develop key risk indicators (KRIs) which ultimately support the Board in its management of risk. The development of KRIs was delayed due to management's focus on addressing the evolving impact of Covid-19.

Principal risks

During 2020, our focus was managing our way through the pandemic crisis. This unparalleled scenario could not have been predicted or planned for and the Group acted swiftly, with effective oversight, to respond to it. The ERC, ARC and Board focused on the impact of Covid-19 on the principal risks; the control environment surrounding them; how the risks were managed during the pandemic; and on a view of the long-term potential impact of the principal risks. Several pandemic-specific risks were identified and mitigations put in place. These risks were either closed or subsumed within other existing risks.

Our risk management process highlighted an emerging risk around employee health and wellbeing. The mental wellbeing of our people was prioritised as the pandemic continued and as government measures were put in place.

In general, our principal risk levels remained unchanged from 2019, despite spending the first half of 2020 in Covid-19 crisis management mode. As the pandemic stabilised, we spent the second half of 2020 understanding the longer-term impact of the pandemic on our principal risks; and the severity of two of our principal risks changed as shown in the table on page 54.

The Board remains confident in our existing governance mechanisms and risk management processes, to ensure that risks (including emerging ones) continue to be identified and dealt with effectively and in a timely manner.

The Board recognises the improvements made over the past three years with our transformation at Capita, making it a simpler business with a stronger operational platform to underpin its future development, as described in the CEO's review on pages 10 to 16.

Capita is now moving onto the next phase of its transformation, as outlined on page 16. We have identified the principal risks that have been judged to be directly linked to this reorganisation; these are denoted by ● in the principal risks outlined on pages 55 to 57.

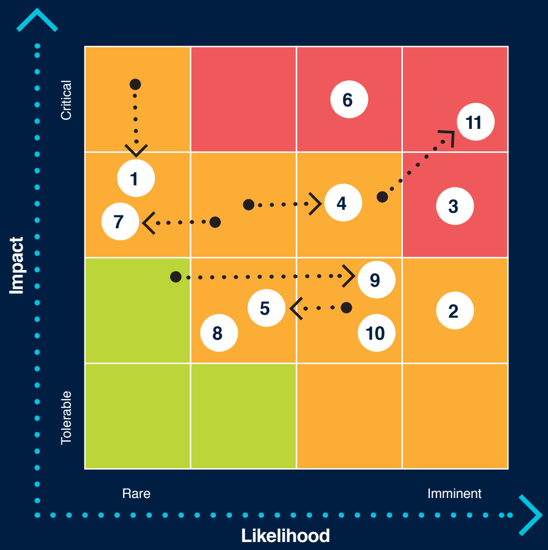
At Capita, the principal risks are considered over the same three-year period as the viability statement. They are listed and described, along with their potential impact if left unmanaged. For each risk, we disclose key mitigations and future actions to further manage the risk and improve internal controls.

Emerging risks

The identification of emerging risks is carried out by both the business, using a bottom-up approach, and the executive, from a top-down perspective. Regular reviews of risks, including emerging risks, are included at risk committees throughout the business.

Emerging risk	Description
Health, safety and wellbeing of our people	In 2020 we witnessed the rapid spread of the Covid-19 virus with devastating consequences across the world. We responded by assessing the impact of Covid-19 on our principal risks and by establishing a dedicated team to ensure Capita was as prepared as possible for the global health emergency. However, as the initial phase of the pandemic stabilised, we began to appreciate the longer-term impacts of Covid-19 on the health, safety and wellbeing of our people, some of whom have now been working from home for almost a year, and will continue to do so for a number of months to come. In 2021, we must continue to support our managers and colleagues across the business in recognising that they are empowered to change how they and their teams work. We will achieve this through briefings, workshops, focus groups, pulse surveys, targeted communications and new training collateral. This not only covers the day-to-day work people have to do but will also have a large emphasis on wellbeing and supporting each other through these challenging times.

Principal risks at 31 December 2020



Key: Level of risk

- **Critical** – The maximum level of risk Capita can bear and remain effective at delivering its strategy. Of immediate critical concern.
- **Uncomfortable** – Risk level likely to cause problems that would put uncomfortable pressure on delivery.
- **At tolerance** – A business-as-usual risk, manageable with the right people and processes in place to respond to the threat. Recognised as an early warning indicator. A tolerable level of risk.
- Risk movement

No.	Risk title	Risk description
1	Living our purpose	Failure to live our purpose and failure to change stakeholder perception so we are seen to live our purpose
2	Strategy	Failure to define and resource the right medium-term strategy
3	Innovation	Failure to innovate and develop new value propositions for clients and customers to drive sustainable growth
4	People attraction & retention	Failure to attract, develop, engage and retain the right people for current and future client propositions
5	Culture	Failure to change the culture and practices of Capita in line with our responsible business agenda
6	Data protection	Failure to protect data, information and IT systems
7	Contracts	Inability to secure contracts with an acceptable risk and reward balance and that are aligned to Capita's agreed purpose, values and responsible business strategy
8	Delighting clients	Failure to delight clients and customers with software performance or project and service delivery
9	Internal control	An inadequate risk-based system of internal control
10	Political climate	Failure to plan for, influence and respond to potential changes in the political climate
11	Financial stability	Failure to maintain financial stability, viability and achieve financial targets/results

Risk	Rationale for significant risk movement
9–Failure to develop and maintain a risk-based system of internal control	In prior years, this risk primarily focused on financial control framework. The executive agreed that a system of internal controls should not be limited to financial controls but be expanded to pan-Capita internal control frameworks. The findings from the KCQ process and themes identified by Group internal audit highlighted that the system of internal controls requires improvement. The impact from Covid-19 resulted in a delay to improving elements of our risk management and of our internal control framework. The risk level increased from at tolerance to uncomfortable.
11–Failure to maintain financial stability and achieve financial targets	As a result of Covid-19, the impact of government policy, client willingness to spend less, our inability to continue to innovate and have the resources available to fulfil contractual obligations impacted our financial stability and the strength of our balance sheet. The risk level increased from uncomfortable to critical.

Principal risk	Potential impact	How we manage the risk
1 **Failure to live our purpose and to change stakeholder perception so that we are seen to live our purpose** Accountable officer: CEO	• misalignment between the strategic objectives and the purpose of the business • transformation does not change stakeholder perception • brand and reputation adversely impacted • clients, suppliers, and people don't want to work with, or for, Capita • investors lose confidence in the transformation	The pandemic put our clients, customers and our service delivery under huge pressure. While that presented challenges to our stakeholders and for our people, it did provide us with the opportunity to demonstrate how we live our values and our purpose by creating better outcomes and continuing to deliver for our clients. **Mitigation actions in 2020** • implemented the real living wage as a minimum for colleagues in the UK • regular proactive open and honest engagement with our clients, customers, and stakeholders to better understand how we can continue to effectively support them during the pandemic • employee survey completed to seek feedback on how 'we live our purpose' and to identify improvement opportunities **Future actions** • review our strategic objectives and purpose of the business and ensure alignment with the new Capita operating model • engage and interact with our stakeholders and rebuild our brand, reputation, and investor confidence by fulfilling our promises
2 **Failure to define and resource the right medium-term strategy** Accountable officer: CEO	• lack of clear direction driving customer propositions • investment decisions with sub-optimal returns • difficult to prioritise investment decisions • customers, partners, and employees are not clear on priorities • difficult to articulate investment case for investors	The financial pressures from Covid-19 had a significant impact on our transformation programme, our strategic priorities, and our ability to demonstrate that anticipated benefits from the transformation programme were on target to be achieved. Instead of focusing on the delivery of our objectives, we had to focus our attention on the pandemic. **Mitigation actions in 2020** As set out in the CEO review, Capita is undertaking a further reorganisation that will address this risk. The future actions all focus on the successful implementation of this organisational change
3 **Failure to innovate and develop new value propositions for clients and customers to drive sustainable growth** Accountable officer: Chief Growth Officer	• inability to grow and develop into new markets • failure to compete with others who are innovative • unable to maximise new technology • loss of new and existing business to competitors • eroded corporate position in the market	The pandemic has thrown up myriad challenges, as well as opportunities for new propositions for clients. Some clients are under financial pressure and will want to spend less. In addition, we have had to scale back the resource and investment in this area, which has resulted in reduced innovation initiatives. **Mitigation actions in 2020** • improved agility in delivering to clients, maintaining market confidence • growth and consulting teams worked hard to accelerate the development of new propositions and explored more than 100 potential Covid-19 related opportunities **Future actions** • the reorganisation of Capita is specifically designed to enable sufficient investment to be made to capture the growth opportunities in the areas we are focusing on. See CEO report
4 **Failure to attract, develop, engage and retain the right people for current and future client propositions** Accountable officer: Chief People Officer	• inability to deliver Capita strategy • loss of key personnel/lack of succession • increased staff turnover and increase in costs from buying in short-term contractors • lack of in-house skills and inability to attract the right people with the right skills • reputational damage	The financial position and drop in our share price have had an impact on our brand and reputation. As a result of internal cost-reduction measures, ie the freeze in bonus payout and pay rise freezes, we have had some staff attrition. However, we have continued to attract and recruit staff in our operational areas and recruit senior roles including replacing senior staff who have left. Our employee survey results have shown three consecutive annual improvements in our employee net performance score (eNPS). The successful implementation of the reorganisation should attract and retain staff. **Mitigation actions in 2020** • leadership development moved to digital delivery • performance review process launched • resourcing capability and systems improved to attract new staff virtually • employee value proposition launched • retained staff and expertise by redeployment, eg from consulting business into other parts of the business **Future actions** • change to more flexible future ways of working • use of levy funding to develop over 1,000 people through modern apprenticeships • introduction of bespoke MBA and diploma programme • changes to 2021 short-term incentive plan design • continue to invest in staff development

Risk identified by the Group as particularly relevant to the reorganisation

Principal risk	Potential impact	How we manage the risk
5 **Failure to change the culture and practices of Capita in line with our responsible business agenda** Accountable officer: CEO	• potential for new clients not to want to contract with Capita • unable to attract and retain talent • negative corporate reputation hampers ability to deliver sustainable growth • climate change impact not considered in operations	Collaboration and teamwork improved during pandemic period. With a continued need to take tough decisions to bridge to the future and the change in work styles, with reduced focus, engagement, and direct interaction with our people, likely to impact our culture, value, and behaviours around openness and collaborative working. We have described earlier in this section, how Capita responded to the Covid-19 crisis which allowed us to demonstrate how we prioritised living our values in line with our responsible business agenda. **Mitigation actions in 2020** • initiated review of our operating model to identify opportunities that will enable us to further improve our culture and develop better working practices in line with our responsible business agenda and focus on our client commitments to deliver better outcomes **Future actions** • continue to embed the reorganisation of Capita to accelerate our journey on culture, values and behaviours
6 **Failure to protect data, information and IT systems** Accountable officer: Executive Officer, Technology Solutions	• loss or theft of confidential client or customer data due to cyber attack • disruption to business operations to Capita and/or its customers due to cyber attack • loss of one of Capita's data centres • reputational damage leading to loss of existing contracts and bidding for new business	The global pandemic involving the spread of Covid-19 presented our IT business with several different challenges, primarily around how we manage our IT infrastructure to accommodate our people who were asked to work from home and to maintain our IT systems and security controls. **Mitigation actions in 2020** • created the office of the Chief Information Security Officer to identify opportunities to strengthen IT security controls • within weeks of the lockdown in March 2020, we made a provision for around 85% of staff to be able to continue to work from home • IT system, cyber and end user security controls improved to ensure colleagues had the capability to work from home during the pandemic, while minimising security, unauthorised access, and data leakage risks **Future actions** • improve IT security structure, process and procedures • monitor and improve information security controls to reduce the risk of data leakage or unauthorised access to Capita systems • implement new tooling to help increase data security and reduce the possibility of data leakage • implement additional security controls for the end user computing devices to reduce the possibility of ransomware or virus attacks • enhance security over corporate domains and cloud governance, to reduce risk of unauthorised access and data loss • explore opportunities for further funding to upgrade IT estate and enhance Group IT infrastructure, platforms and systems
7 **Inability to secure contracts with an acceptable risk and reward balance and that are aligned to Capita's agreed purpose, values and responsible business strategy** Accountable officer: CFO	• loss of contracts • lack of ability to acquire new business • contract terms and service commitments are not met or understood • exposure to unexpected costs/ cost overruns or onerous terms • brand and reputational damage if not managed effectively • risk of financial claims/ penalties and other disputes with clients • adverse impact on contract profitability	The pandemic has financially impacted potential clients and customers leading to a reduced appetite to spend money and wish to pay less for services. There is a risk that Capita enters contractual arrangements with new clients that result in unacceptable commercial, regulatory, financial, or reputational exposure, or which are not aligned to Capita's agreed purpose, values, and responsible business strategy. **Mitigation actions in 2020** • the contract review committee (CRC) controls streamlined including a fast-commercial governance process • contract remediation committee in place to review delivery on existing contracts • transactions committee established to review acquisitions and mergers to ensure alignment with growth strategy **Future actions** • refresh the CRC policy and deal review template, including incorporation of new H&S/ safeguarding risk assessment • further refresh and roll out CRC post-deal review process • develop fraud risk assessment • develop and roll out standard form contracts and playbooks

Principal risk	Potential impact	How we manage the risk
8 **Failure to delight clients and customers with software performance or project and service delivery** Accountable officer: Chief Transformation Officer	• loss of existing contracts • brand and reputation damage • limited or no new business	As a result of Covid-19, most projects are either continuing or have been change controlled, but this did not affect our ability to deliver our client commitments. The reorganisation of Capita's operating model should enhance our ability to fulfil customer requirements. **Mitigation actions in 2020** • programme and investment committee reviewed significant projects using project governance methodology • implemented the weekly SLA/KPI CEO reporting • implemented a new software support service on ServiceNow that enabled us to improve our service standards **Future actions** • reorganisation of our current structure into a more focused, client-centric Group to deliver better outcomes for our clients and their customers • have the right technological capability available to the divisions to deliver for customer needs, which is a fundamental part of the reorganisation to continue to build and develop client confidence in Capita and our ability to meet customer needs
9 **Failure to develop and maintain a risk-based system of internal control** Accountable officer: CFO	• fraud, misstatement and inaccurate financial reporting • greater regulatory or client scrutiny • increased costs associated with risk remediation activities • breaches of law, statutory and legal reporting leading to regulatory fines in financial services sector and loss of key contracts • reputational damage and adverse media interest leading to inability to secure new contracts	In prior years, this risk primarily focused on financial controls. The executive agreed that a system of internal controls should not be limited to financial controls but should be expanded to pan-Capita internal control frameworks. The impact of Covid-19 has resulted in a delay to the improvement of elements of our risk management and internal control framework. **Mitigation actions in 2020** • KCQ self-assessment process was developed and completed against key controls • a control questionnaire process was completed where every business leader attested to compliance with a minimum set of financial controls • senior management provided an assessment of the control environment following a stabilising of the initial pandemic crisis; specific attention was given to the plans to improve cyber and IT resilience **Future actions** • embed accountability, responsibility and understanding of governance, risk and controls environment with the new operating model • implement a more efficient internal control framework • refresh and enhance the enterprise risk management framework including updating the risk appetite into a more granular tool to develop key risk indicators for monitoring key risks • establish risk and assurance committees at Group function and business unit level
10 **Failure to plan for, influence and respond to potential changes in the political climate** Accountable officer: Director of Corporate Affairs	• the Government's response to Covid-19 has generated significant new policy at speed affecting the operational environment for the business • the new approach by Government to innovation and public service delivery is a potential risk to Capita • possibility of additional regulatory changes by new government	UK Government's absolute priority has been Covid-19 and going forward will be recovery. There may be increased volatility in government spending because of an improved opposition. **Mitigation actions in 2020** • engaged with government and other parties (eg regulators) to promote and protect reputation • worked to understand business requirements and prepared for Brexit **Future actions** • engage with government in response to Covid-19, new policies, and impact on Capita • monitor and horizon scan for political, regulatory, and economic developments impacting political climate
11 **Failure to maintain financial stability and achieve financial targets** Accountable officer: CFO	• continued cash outflow reduces liquidity available to invest in transformation • loss of shareholder value • weakens investor confidence	Covid-19 significantly impacted our ability to maintain financial stability and achieve our financial targets, due to the lockdown travel and workplace restrictions. As a result, for a short time, we were not able to fully deliver on some of our contractual obligations. We incurred loss of revenue in our transactional business and from clients in financial distress. **Mitigation actions in 2020** • early decision to reduce costs and conserve cash, supported by enhanced finance controls • daily cash forecasting to understand overall Group liquidity and revolving credit facility requirements • focus on ensuring minimal disruption to cash collection cycle through remote working • monthly reforecasting evolved as our understanding of the financial situation developed, moving from a V-shaped recovery to business by business recovery curves. Projections extended to 2021 and the business planning process accelerated • took action to address balance sheet concerns through additional asset disposals **Future actions** • further strengthen the balance sheet, by addressing our debt maturities and targeting more non-core disposals • implement the new finance target operating model to improve financial forecasting reliability

Viability statement

As previously reported, the multi-year transformation plan described in the strategic report underpins the viability of the Group and Parent Company. The successful delivery of the plan will transform Capita, driving significant revenue growth from a more competitive cost base, and with client solutions that are differentiated in the markets in which the Group operates. This underpins the Board's consideration of going concern and longer-term viability.

The global pandemic in 2020 introduced unprecedented threats for all businesses. It highlighted the need for businesses to be agile in order to prove resilience in responding immediately to the challenges presented, including the national lockdowns that were imposed. Of paramount importance was safeguarding the wellbeing of our employees and all our colleagues across our clients and supply base. Details of how Capita responded to the various challenges are set out in the Chairman's introduction and Chief Executive Officer's review on pages 4 and 5 and 10 to 16.

The base-case projections prepared for the going concern (noted on page 129) and viability assessments are derived from the 2021–2023 business plans as approved by the Board. These capture the key benefits that the transformation plan is expected to deliver, and the costs to achieve them. In assessing the resilience and viability of the Group, the Board has considered not only the execution risk associated with the transformation plan, but also risks that may crystallise with a continuation of the pandemic and associated lockdowns.

In assessing viability, the Board has considered a three-year period as there is sufficient clarity to consider the business prospects and provide a foundation to stress test against severe but plausible downside scenarios. The high level of uncertainty as to how Covid-19 might evolve over 2021 and 2022 and the continuing impact on the economies and end markets makes precise forecasting challenging. There is a higher degree of uncertainty than would usually be the case in assessing viability. Accordingly, the Board has applied a higher level of caution than in prior years in evaluating the severe but plausible downsides in order to gauge the resilience of the Group and Parent Company to unexpected risks arising.

The risks applied have not been probability weighted but rather consider the impact should each risk materialise by applying a 'more likely than not' test (eg more than a one-in-10 chance of occurring). These include trading downside risks, which assume the transformation plan is not successful in delivering the anticipated revenue growth and assume a downside that also incorporates revenue attrition and further impact of Covid-19. The severe downside also incorporates potential adverse financial impacts that could arise from incidents such as data breaches, cyber attacks, controls failures and an assessment of the potential fines and penalties for any non-compliance with laws and regulations.

There are mitigations under the direct control of the Group that the Board can action to address some of the risks that may crystallise under a severe but plausible downside.

While these are available as possible short-term mitigations, the Board is mindful that some of these mitigations may be detrimental to the success of the transformation plan.

Therefore, to support the medium- and longer-term resilience of the Group, the Board is continuing to explore refinancing options, together with a continuation of the previously announced disposal programme.

The Board has been exploring a refinancing of the debt maturities to reprofile the debt repayments to align with the delivery of the transformation plan while also providing the financial support necessary to complete the required investments. While refinancing was not completed in 2020, the Board successfully arranged backstop facilities in February and August 2020, is in discussion with lenders, and is targeting completion of a refinancing in 2021.

In addition to the refinancing options, the Board has approved a continuation of the previously announced disposal programme, which covers businesses that do not align with the longer-term strategy of the Group.

The Group has a strong track record of executing major planned disposals and the Board is confident the approved disposal programme can be delivered, given the strength of the businesses and the value they deliver. The planned disposals will introduce considerable net cash proceeds to the Group, albeit with a corresponding removal of consolidated profits associated with these businesses.

The Board recognises that any refinancing would require third-party agreements from lenders. Furthermore, the disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals are outside the direct control of the Company. Accordingly, these events give rise to material uncertainties, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt on the Group and Parent Company's ability to continue as a viable concern.

Based on this assessment, and reflecting the Board's confidence in the transformation plan, ability to refinance, and execution of the approved disposal programme, the Board has a reasonable expectation that the Group and Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of the viability assessment.

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

Francesca Todd
Group Company Secretary
16 March 2021
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